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S. HRG. 100-170, Pt. 1

MANAGEMENT OF THE U.S. CUSTOMS SERVICE

FIELD HEARINGS

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

FIRST SESSION

BROWNSVILLE AND LAREDO, TX
FEBRUARY 11, 1987

Part 1 of 2

Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE

71-548 WASHINGTON : 1987

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

S361-35

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MANAGEMENT OF THE U.S. CUSTOMS SERVICE

WEDNESDAY, FEBRUARY 11, 1987

U.S. SENATE,
COMMITTEE ON FINANCE,
Brownsville, TX.

The hearing was convened, pursuant to notice, at 9 a.m., in Tandy Hall, Texas Southmost College, Hon. Lloyd Bentsen (chairman) presiding.

[The press release announcing the hearing, and the prepared statement of Senator Bentsen follow:]

[Press Release No. H-13, Jan. 27, 1987]

FINANCE COMMITTEE CHAIRMAN BENTSEN ANNOUNCES HEARINGS ON MANAGEMENT OF THE U.S. CUSTOMS SERVICE

WASHINGTON, D.C.—Senator Lloyd Bentsen (D., Texas), Chairman, announced Tuesday that the Senate Finance Committee will hold three days of hearings on the Reagan Administration's request to cut the budget of the U.S. Customs Service.

"The Administration is embarked on a long-term program of cutting back the level of customs services and inspection of imported goods at our ports. I am concerned that the budget proposals and management changes initiated by the Administration, most of which fall on commercial operations, are weakening the agency's ability to do the commercial side of its job effectively," he said.

"We may want to consider whether customs management reform legislation is needed."

The hearings will begin in *Brownsville, Texas and Laredo, Texas on Wednesday, February 11, 1987.* The hearing in *Brownsville will begin at 9:00 a.m. at Texas Southmost College, Eidman I Lecture Hall.* The hearing in *Laredo will begin at 2:00 p.m. at Laredo State University, Institute of International Trade, University Hall, Rooms 141 and 142.* The focus of the hearings at both locations in Texas will be on the impediments to commerce over the U.S.-Mexico border caused by Administration's proposed cuts of the Customs Service's budget.

Hearings will also be held in *Washington, D.C., on Wednesday, February 25, 1987, and Thursday, February 26, 1987.* The hearings *will begin each day at 9:30 a.m.* in Room SD-215 of the Dirksen Senate Office Building. Issues to be covered at these hearings include the Administration's proposed cutbacks in staffing and level of services in commercial operations; consolidation and centralization of operations; the Customs Service's increasing employment of an automated system for determining which shipments of imports to inspect; and other matters relating to appropriations and operations of the Customs Service.

STATEMENT BY HON. LLOYD BENTSEN

The hearings we are holding today and again in Washington, D.C. in a couple of weeks are to determine what's gone wrong with the Customs Service in recent years, and what we in the Congress can do to set things right again.

The Administration is engaged in cutting back drastically on the resources and manpower that it is willing to devote to the Customs Service. By fiscal year 1988 the Administration wants to eliminate 2,000 personnel positions from those already authorized by the Congress for fiscal year 1987.

These drastic cuts are supposedly justified by a process of streamling and automating the procedures used by the Service. But can it really be true that machines can so rapidly and totally replace the skill and professional judgment of thousands of trained employees? My concern is that the dedicated men and women of the Customs Service—the front-line troops of our war on drugs and our customs enforcement efforts—are being ill-served by a drive to economize for its own sake.

When it comes to funding for the Customs Service, cuts in spending are not always economical. Customs is a revenue maker. Every dollar spent on Customs is returned several times over in enhanced collection of customs duties and fees.

We should also recognize that overburdening Customs results in lax enforcement. More illicit drugs slip into this country undetected. And the restrictions on imports imposed by our trade laws go unenforced, to the detriment of our industries and workers who are supposed to benefit from those laws.

It's been several years since the Congress looked seriously at the problems of the Customs Service. That situation is now at an end. The Finance Committee—beginning with these hearings—will be closely scrutinizing the Administration's management of the Service. It may be we will need to bring some reality to bear on what the Administration is up to. It may also be that we will need new legislation to correct the deficiencies in the Service or redirect its moves at modernization to be sure that the quality and efficiency of its work do not continue to suffer.

You here on the border already know the kinds of problems that I'm referring to. And you have your own special problems as well. The economic welfare of the entire border area depends on the unimpeded flow of legitimate commercial traffic across the border. That vital flow depends, in turn, on Customs doing its job well.

The business of the Customs Service here on the border is booming, not only because of increased traffic to and from the maquiladora plants, but also because of the renewed effort to stem the tide of illegal drugs. Customs has been hampered in its work by the failure to update facilities and to keep sufficient people on the job. Customs is only impeding the economic progress of this area when traffic backs up at the border because its inspection lots are full or drug enforcement efforts take precedence over commerce.

What we hope to see is a Customs Service that facilitates legitimate business across the border. At the same time we want to see stability finally brought to the drug interdiction program. And we want both efforts to proceed without one interfering with the other.

I understand that Customs has now begun a long-overdue study of its problems along the border, and will seek help and information from the local communities. If this effort is real, I support it wholeheartedly. We intend to follow the progress of this effort to ensure its sincerity and to make sure it results in legitimate improvement.

But the Committee also needs to hear first-hand from the border community, and if legislative solutions are necessary, we will take them. That's why we are here today.

Senator BENTSEN. This hearing will come to order.

The first hearings of the Finance Committee that will be held out of Washington this year will be held in Texas. I assure you of the fact that the chairman from Texas is here of his own accord. I have a deep concern regarding anything that might affect trade across this border. I also have a concern about drug interdiction.

It's an area that all families are worried about today about drugs coming across, being in our school grounds, intruding into our families, wreaking many families great suffering, but to have the rhetoric to say you can stop drugs coming across and then at the same time cut back substantially on Customs employees seems to be a contradiction in terms.

We're talking about a reduction of Customs in the area of about 2,000 employees. And that would be 1,500 in this fiscal year and another 500 in the fiscal year that's forthcoming.

What you are seeing at the present time is some increase in the number of employees in Customs, but that's only to bring it up to

what the Congress mandated in opposition to what the administration had suggested. Now, if they bring it up to that and then come in and call to the 2,000 reductions, obviously, you move back down the scale again.

When you see a situation where only about 2 percent of those boxes, crates, packages and so on are being inspected, you understand that the opportunity for more drugs to come in is increased substantially.

The other problem that you run into is in the inspection for commercial purposes. Anything that impedes that kind of trade coming across, that slows it down, that makes it more difficult, means that we'll have less of it. And that hurts the economy on both sides of the border and certainly hurts the consumer insofar as price of products.

So that's the purpose of this hearing. And I'm very appreciative of the concern and the interest on the part of the people of this community and the valley and south Texas.

We'll be having a number of witnesses dealing directly with the Customs problems. We'll follow up in Washington with extensive hearings. Customs has generally been neglected insofar as the Senate and the Finance Committee over the last few years but it's going to be a high profile situation this year as we probe to see what it takes to improve it. We have a lot of very able and loyal employees in the Customs Service. But you've seen trade increase across this border in the last 10 years. On a factor of three, it has tripled in 10 years and yet you have a reduction in the number of people that have to administer it and see that it's effectively and efficiently done. And that results in some serious problems accomplishing the task and one that has to be of concern to those employees as they discharge their responsibilities.

We'll also address the question of maquilas. I have been a long supporter of the maquilas. I believe in the Twin City concept. But I don't want to see just a billboard on our side and a plant on the other side. And I talked to the President of Mexico, to the Minister of Commerce, told each of them I would find it very difficult to support maquilas that are located in the interior of Mexico. The only way we can justify sections 806 and 807 that says that we only tax the increased value of the profit, the increase in value that's been put on the Mexican side, that we only tax that incremental part as it comes back. And the way we justify it is if it's helping both sides of that border. And I think it has at this point.

On the Mexican side you have some 300,000 employees. And visiting with the Mexican President I also stated that under the law in Mexico they can keep in Mexico approximately 20 percent of the products that are developed in that area. And I strongly urged him to keep that 20 percent, don't just send it all back to the United States. In addition to that, with the productivity of their people, the cost of the product when it's finished, they are highly competitive and they can do a better job cost-wise than the Japanese, the Taiwanese or the South Koreans and that they ought to be selling that product into Europe, again, not just back here.

The other studies that we have from the International Trade Commission show that of those wages that are earned by those

people across the border, that from 40 to 60 percent of those wages are spent on this side and create employment here. So it can truly be said that "una mano lava la otra." And that's what we're urging, that we work for the common good of the people on both sides of that border.

I understand some of the concerns and some of those jobs are lost in the United States proper. But I also have the feeling that if they didn't come here, that they would be going to Taiwan and South Korea and Hong Kong and Singapore. I think it's also important for us that we have a neighbor that has a stable economy because what happens there spills over here. And it's important that we have stability on this border.

With that in mind, I would like to ask these two gentlemen to come forward as the first two witnesses. Mr. Mario Yzaguirre; he is a founder and member of the Board of Directors of Brownsville National Bank and owner and operator of, would you step up, of Mario's Drug Store, Brownsville. And Mr. Robert Duffey, Chief Executive Officer of the Texas Commerce Bank in Brownsville.

And I would ask each of you to limit your testimony because we have a number of witnesses and we have a comparable hearing taking place in Laredo and I am told that we have a clock that goes off at the end of that period of time and that you should calm your nerves because they tell me it sounds like one of those basketball clocks.

Mr. Yzaguirre.

STATEMENT OF MARIO YZAGUIRRE, FOUNDER AND MEMBER OF THE BOARD OF DIRECTORS OF BROWNSVILLE NATIONAL BANK, BROWNSVILLE, TX

Mr. YZAGUIRRE. Mr. Chairman, I am a practicing registered pharmacist and the owner of a small—a pharmacy in Brownsville. As a person who has lived and worked all of my life on the border I sense a need for the continued vigilance of the vast areas of land that lay along the Rio Grande River, which forms a natural border with Mexico, and the many miles of open and undeveloped beach along the Gulf of Mexico.

As the owner and operator of a small business for the past 30 years, I have seen the changes that have occurred in this city. We have gone from a small-town atmosphere, with an excellent quality of life, to a crossroads in drug traffic. The arrests made by Customs and other law-enforcement agencies attest to this being a very serious problem for our community and this general area.

My comments regarding the effect Customs has on the small businessman will be limited to three areas. They are drug enforcement, centralization of import specialists and inspection and control.

The Federal Government has repeatedly made public statements that the southwest border area was to be given priority emphasis by the U.S. Customs Service in drug law enforcement. The commitment was made because of the ever increasing use of the area as a major transhipment point of drugs entering the United States from Mexico.

Within the past few days, there have been major announcements about the Customs Service's plans to implement new and improved radar coverage along the land border areas and the gulf coast area. The economic impact of these agents moving into our community cannot be overlooked but even more important to us is the fact that positive efforts are being undertaken by the Customs Service to counter the massive drug smuggling problem in our area.

While on one hand we are being told of the large commitment by the Customs Service in the area of drug law enforcement, we are now being told of pending budget reductions for the Customs Service. Administration officials have been quick to point out that the proposed budget cuts will be in commercial operations and not in current enforcement operations but these statements can only be viewed with skepticism. What is commercial operations? I have been told by Customs officials that commercial operations concern the facilitation of cargo into and out of the United States. If this definition is correct, then there should not be a reduction in these commercial operations, but an increase. For an area, such as Brownsville, which is in the throes of economic redevelopment any effort by the Customs Service to reduce any portion of their operations can only be viewed as having the potential for economic disaster

Drug enforcement programs should not completely overshadow and make us lose sight of the commercial operations that are still ongoing in Brownsville. A great many people in this town are involved in importing and exporting. It is something that the citizens of this town have been involved in since this town was founded. The retail business in this town relies very heavily on the Mexican shopper. The wholesalers in town supply Mexican companies with spare parts and raw materials. In return, there are numerous businesses involved in both a small and large scale in importing Mexican goods or American goods assembled abroad. In a town such as this, one will find goods and merchandise from all over the world that have arrived here to be sold to Mexican consumers or to be used in combination with American goods that are being assembled in Mexico.

Of extreme importance to this importing and exporting process are the line inspectors, those whose job it is to examine goods that are being imported or exported and who insure that all documents are in proper order prior to importation or exportation. Complicating the requirement for Customs inspectors are demands placed on Customs by our seaport, our airport and the two trade zones we have, as well as the numerous bonded warehouses locally. The community infrastructure is supported heavily by these importing-exporting businesses and to limit the number of Customs inspectors will only slow down the commercial operations ongoing in the community. If local commerce slows down, the entire community suffers. We must insure that there are sufficient Customs inspectors constantly available to insure that the normal day to day business that goes on here is accomplished smoothly and efficiently. If there are not, local business will suffer, including local retailers, wholesalers, assembly plants located here, numerous truck lines, railroad companies, all incoming commercial and noncommercial airplanes, and all barge and boat traffic. Inspection and control plays a large

role in drug enforcement, but we must insure that the role it plays in commercial operations keeps pace with the growing and vibrant import-export community that exists here.

Over the last 2 years Customs has been involved in what has been called centralization of import specialists. Import specialists locally either were reassigned or when the older import specialists retired their slots were not filled and such slots were assigned elsewhere. Now, Brownsville has no import specialists on duty, while, Hidalgo and Laredo have some. Import specialists are you might say the "brain" of Customs. This is not to take away from your line inspector, who is a generalist and is not expected to deal with the finer points of classification of goods or appraisal of value of goods as an import specialist.

What we have here in Brownsville now is thus a situation where local businessmen who are involved in importing must go to Laredo for information. An 800 number to call has been made available to local businessmen, but it is rather difficult to talk about a type of merchandise over the phone. With the importing business here growing and with the increasing number of assembly plants locating here, it will be very difficult to continue this growth in the future without location of import specialists once again in Brownsville. Keep in mind that we have two bridges, an airport, a seaport, as well as two trade zones and we don't have an import specialists pool locally to deal with local importers. One might say that the pool went where the business is; but, we would not have two busy bridges, a busy airport in terms of commercial shipments and a seaport, as well as the two trade zones if it were not for the business we have. Our worry is that without import specialists that the business here will not stay here for lack of import specialists to insure proper classification and appraisal. Our worry is that business will go where the specialists are and our town will be hurt even more. Import specialists review all import documents and if a businessman has some doubt about the correctness of a classification, then he has doubts about the amount of profits involved in his operations. When profits are in doubt, people often opt for the certain. If our town loses this importing community it is understandable that other business will most certainly suffer.

Regarding drug enforcement, I can tell you as a citizen of Brownsville that the illegal smuggling that is taking place locally is one activity we do not want here. Because of budget cuts and a general lowering of revenues, our city police department and our county sheriffs department are both undermanned. We just do not have the tax base to defend ourselves. We have to make do with trying to coordinate all of these departments in conjunction with existing levels at Customs. Without Federal intervention, I can tell you that we will lose the battle. My personal view is that Customs is a very important and necessary element in maintaining the quality of life of our city that is needed to attract industry and much needed jobs.

If the drug smuggler gains the upperhand here, businesses such as mine and others like mine will suffer because those citizens who are our customers will not want to remain here. They will not want to live here and will eventually go elsewhere. I ask this Committee to make a commitment to the citizens of Brownsville that

this Nation will not abandon them and that this nation will do its utmost to defend the rights and property of the local population by providing us with the personnel needed to properly defend the border region against drug smugglers.

Thank you, sir.

Senator BENTSEN. Thank you very much, Mr. Yzaguirre. Mr. Duffey, you can begin with your testimony.

STATEMENT OF ROBERT DUFFEY, CHIEF EXECUTIVE OFFICER OF THE TEXAS COMMERCE BANK IN BROWNSVILLE, TX

Mr. DUFFEY. Thank you, Senator, for allowing me this opportunity to address you concerning the potential community impacts of proposed staffing cutbacks and management changes of the U.S. Customs Service. We appreciate your interest in trying to determine how proposed staffing and management changes will affect border trade and commerce by conducting these hearings.

Adequacy of Customs Service staffing is a major community concern for Brownsville. Brownsville's geographic location and transportation facilities have historically made Mexico a major trading partner with out community. Approximately 70 percent of the tonnage passing through our deep water port is related to Mexico. The Brownsville/South Padre Island Airport is the air cargo leader of the lower Rio Grande Valley airports because of the volume of goods coming from Mexico. Brownsville ranks among the top five cities in Texas as a tourist destination and our sister city Matamoros is a key attraction to drawing those visitors to our area.

Today Brownsville, TX, and Matamoros, Tamaulipas make up a growing binational urban area of over half a million people. The Customs Service performs an integral role in the movement of goods and people between our two communities. We are deeply concerned that a reduction in Customs Service staffing could inhibit the flow of commerce between our two communities and further damage our local economy. With an unemployment rate more than twice the national average, Brownsville can ill afford measures which will restrict the growth of commerce and jobs.

The Customs Service is asked to perform a number of missions nationwide and all of these responsibilities are required at an international border location like Brownsville. As the administrator of U.S. tariff laws, Customs assesses and collects duties on imported merchandise. Customs must control vessels, people and articles entering the United States. Customs is also responsible for preventing commercial fraud and smuggling. Customs is expected to halt terrorists at our international borders and finally Customs has been give a major role in the mission of stopping the flow of illegal drugs into this country.

While the scope of the Customs Service mission along the border has been growing, they are being asked to do more with less. Illegal drug importation is a severe national problem that we must address, yet Customs must also have adequate manpower to efficiently process people and goods crossing out international border with Mexico for legitimate purposes. The overriding priority of drug interdiction at a time of imposed manpower reductions means less

emphasis on commercial trade enforcement, the revenue producing mission of the Customs Service.

Manpower reductions of the Customs Service will affect the efficient movement of goods and people at our border crossing, thereby affecting local economic growth. Manpower reductions will mean longer delays at our two international bridges which will dissuade daily travel and negatively affect commercial trade, tourism, and area industrial development. Manpower reductions will also slow the legitimate movement of goods across our international border.

We urge the Senate Finance Committee to take into account the economic impact of Customs Service personnel reductions on communities like Brownsville. If the Customs Service priority of narcotics interdiction takes all of their limited manpower, then Customs' ability to effectively police other international laws and regulations to protect the public will be affected. In times of burgeoning Federal deficits why cut a Federal revenue collection agency? The Customs Service should be provided additional personnel resources to effectively carry out their many responsibilities.

Thank you again, Senator, for your concern on this important issue of Brownsville nationing the border.

Senator BENTSEN. Very well. Gentlemen, if you would restrain yourselves from this area, I'd appreciate it.

Mr. Yzaguirre, when you talk about delays and unusual delays, that's a term, a general term. Could you be more specific? How long of delays have you seen? What's the worst delay you have seen on this border insofar as commercial traffic trying to be clear through Customs?

Mr. YZAGUIRRE. Well, if we go by time elements, sometimes it takes 1 hour, 1½ hours. It could be very dangerous if everybody was backed at one time at one bridge and a lot of backing could be happening. And besides, if it gathers, we have to move the traffic.

Senator BENTSEN. Mr. Duffey, we are talking about trade across this border and people on this side spending their money over there and people on that side spending their money here. You are in the banking business so you see a lot of pesos flow through your bank. Can you give us a feel for what it means in the way of volume, dollars as related to pesos coming through your bank or other banks? I don't want to have you give away any trade secrets, maybe you can tell me in general insofar as Valley banks.

Mr. DUFFEY. Certainly, it's been quite a change in the way pesos are handled in the last few years since the major devaluation. Believe it or not, most of the pesos are not happening through the banks as they were traditionally in the old days, but they are handling through at the casa de cambios. So I do not have a feel for that. I can tell you that estimates, and I think they are good estimates, that about 60 percent of the retail trade in Brownsville, I think that's a——

Senator BENTSEN. Sixty percent?

Mr. DUFFEY [continuing]. Of the retail trade in Brownsville is either directly or indirectly related to Mexico. And so it's a terribly important part of our business. The other side we have the one area where I think we have, in addition to the Maguila Program, where we have a great deal of future potential is in the tourist trade. And you know you bring these tourists down to this area,

they come for the beach and for the climate, they also come for the proximity of Mexico.

And if they come to this area and it takes 2 or 3 hours to go across to Matamoros and shop at the market or take their friends who come down to visit from the north while they are down here and it takes 2 or 3 hours to come back, they are not going to make many trips to Mexico.

Senator BENTSEN. They are not going to make many trips to south Texas.

Mr. DUFFEY. That's what I'm afraid of. That's the logical thought.

Senator BENTSEN. Mr. Yzaguirre, you are a merchant here in town. Can you give me a feel for the amount of pesos that are spent in your establishment, percentagewise?

Mr. YZAGUIRRE. Well, percentagewise, probably most local stores, including mine, average about 50 or 60 percent. It is very hard because of the peso devaluation but we still make a profit in buying, not the amount they used to buy, but we are still getting paid.

Senator BENTSEN. Gentlemen, I would like to have your statements in full to buttress what you have given us thus far so we can have it for the record and to the extent you can give us specifics rather than generalities the better off we will be in trying to decide how good a job is being done, such changes that might be brought about, any procedures that we think should be changed to try to move forward in handling this increased volume of business.

Do you have any comment concerning, you made some comments there about drug enforcement, do you have any specifics in that regard, either one of you?

Mr. YZAGUIRRE. Well, I think we should see adequate law enforcement, but we do have, I presume, adequate. As of now we need more, but we might be short in commercial import.

Senator BENTSEN. Short in commercial. OK.

Mr. DUFFEY. Senator, it seems to me that if the Customs Service were provided with more personnel and we could move more people across the bridge, then that would also own the opportunity to do a closer inspection on more vehicles, and I think that obviously, would find more illegal drugs.

Senator BENTSEN. Well, one of the questions asked me just as we were getting started here was about the fact that I was told that they were adding some twenty employees here in Brownsville. But as I understand it from talking to Mr. von Raab in my office in Washington last week, they are adding personnel, but only to get them up to what we had authorized and budgeted and approved in the Congress. And now the administration's budget request would cut it back from that, if they reached the full amount, would cut it back by some 2,000 people. And that's what we're trying to see, if it's justified, and what effect it has on the economy of the border country and what it does to drug interdiction. I am also advised that in general the aircraft are going to be there. The concern is we want somebody to fly them and be sure that that's being done, too.

Thank you very much, gentlemen.

Mr. DUFFEY. Thank you.

Mr. YZAGUIRRE. Thank you.

Senator BENTSEN. Yes, sir.

Our next panel of witnesses will be Mr. Al Cisneros, who is the general manager and port director of the Brownsville Navigation District, and who has had as his main objective the improvement of commerce and the economy in the area and a great wealth of experience in that regard. And Mr. Sam Vale, who is the president of the Mexico-Texas Bridge Owners Association, Rio Grande City.

When I look at these panels, I just see a lot of old friends. And I'm delighted to see you, gentlemen.

Mr. Cisneros, will you proceed with your testimony.

STATEMENT OF AL CISNEROS, GENERAL MANAGER AND PORT DIRECTOR, BROWNSVILLE NAVIGATION DISTRICT, BROWNSVILLE, TX

Mr. CISNEROS. Mr. Chairman, thank you for giving me the opportunity to express my concerns regarding the budget cutting proposals and management changes being proposed by the Reagan administration for the U.S. Customs Service. I am addressing your committee with the perspective of an individual working for a local transportation governmental authority which is presently planning the construction of a new international bridge just east of Brownsville and Matamoros, linking the Port of Brownsville with a new major industrial park on the Mexican side of the river which is presently being planned to respond to the need for a better transportation system, the economic recovery, and industrial growth needs of the area.

Senator BENTSEN. Let me interrupt there. I knew he'd work it in. I got the original piece of legislation, the original appropriations for reworking the rail system around Brownsville and I just had a hunch Mr. Cisneros couldn't resist putting the plug in, but now if you proceed with the subject at hand.

Mr. CISNEROS. Thank you. Mr. Chairman, I am referring to when in the early stages of this project we did financial transportation so we see the need for additional bridges in this area.

Senator BENTSEN. Good.

Mr. CISNEROS. And we're talking about the international aspect and not the railroad location of Brownsville.

Senator BENTSEN. All Right. OK.

Mr. CISNEROS. Last month I addressed the 66th annual meeting of the transportation Research Board in Washington, DC, on the subject of the "U.S. Perspective on Transborder Transportation Issues Between Mexico and the United States." Two of the major issues which I addressed are directly related to the purpose of this hearing today.

First, is the need for additional infrastructure which will help stimulate our economic recovery. Without question, the greatest need we have at all our border cities is more international bridges. Today, you will find extreme traffic congestion in our Twin Cities which causes frustrating delays for passenger vehicles and commercial trucks needing to cross the border. For example, at Brownsville-Matamoros where we have a combined population of 500,000, we only have two bridges. Transportation studies recently made show that on the average, it takes from a minimum of 30 minutes

to a maximum of 1½ hours to cross a bridge. Naturally, the fact that we must have governmental inspection to assure the compliance of our laws is a major reason for these long delays. We need more bridges to decentralize this process to improve the efficiency and safety of crossing the border and still be able to cope more effectively with immigration pressures and drug interdiction.

I often compare the Brownsville-Matamoros area with Austin, TX, which has a similar size population, with the Colorado River running through the center of the city. The city of Austin has 11 bridges and two railroad bridges, a total of 13, so that there can be a normal flow of traffic from one side of the river to the other for people driving to work, to shop, to schools and for recreational purposes.

Senator BENTSEN. The highway department is also located in Austin, Mr. Cisneros.

Mr. CISNEROS. Right. Our two cities have a faster rate of population growth than Austin and we must work hard and fast to catch up and prepare for our future growth. I am not saying we need 13 bridges. Our transportation study shows that we need three more on the end of the century if we are going to cope with the population which is expected to continue growing. Having visited the other Texas border twin cities, I have found that the problems there are just as bad, or even worse there. I understand that the delays at El Paso/Juarez, where they have a joint population of 2 million people and only five bridges, that their crossing delays last from 1 to 2 hours.

The second major issue I addressed dealt with the Government services and regulations. One of the principal reasons for having so few bridges on the Rio Grande has been the inability and reluctance of both the United States and Mexican Governments to establish more Custom houses and inspection stations. Due to Federal budgetary limitations, there have also been very limited numbers of personnel assigned to these few international crossings.

Due to the tremendous growth pressures we have recently been experiencing at our Nation's seaports, airports, and international crossings, as you well know, the Congress in 1986 responded by providing additional funding in fiscal year 1987 for an additional 850 Customs personnel over fiscal year 1986 staff levels. The final report language indicates a need for additional drug enforcement personnel, as well as import specialists. About 12 to 20 of the new personnel have been earmarked for the Brownsville port of entry.

In order to compensate these additional personnel, the 1986 budget Reconciliation Act established Custom user fees on all cargo imported into the United States in fiscal 1987. It is an advalorem fee of 22 cent on every $100 worth of cargo, or actually 22 percent. There is also a user charge of $5 per truck, $5 per rail car, and $47 per ocean vessel that enters our country. The Department of Justice has also established some new user fees to provide funding for additional Immigration inspectors. This is consistent with—user charges is consistent with what the Government is doing in providing services.

Now, I wanted to get into what I'm recommending. Recognizing that there is a need——

Senator BENTSEN. If you would summarize that, please, Mr. Cisneros, and we will take your entire statement in the record. But if you summarize that——

Mr. CISNEROS. Recognizing that there is a need for additional bridges and inspection stations, perhaps a legislative amendment is needed recommending that a portion of the bridge toll be dedicated to U.S. Government Personnel Payroll Fund in order to pay for the selection, hiring, and training of additional Customs personnel to provide these additional services which are badly needed at these bridges.

In the rest of my testimony I will explain that I discussed this with the Deputy Director of Customs and the person from the office of Inspection and Control in Customs in Washington just a few weeks ago, and they said when they were considering the user charges for Customs, you know, they only were looking at so much per truck, for rail car and so much on an ad valorem fee when they throught about passenger vehicles and recognizing that ninety percent of vehicles crossing the bridges are passenger cars, they said "well, how are we going to collect a fee from those individuals?"

And I said, "well, would you consider having the people collect from the tolls for you?" And they said, "no, we didn't because sometimes the toll is collected on the other side of the bridge." We have two different situations here. But at first they just felt it was impossible. But then when we discussed the possibility of increasing the bridge toll, and establishing a payroll fund, that this was one of the possibilities. The other thing, for instance, in my testimony, I show that if you had a 10 cent fee per vehicle, with the volume of traffic we have crossing in our bridges, just 10 cents, we would generate enough revenue to pay for an additional fourteen primary inspectors. And also——

Senator BENTSEN. Mr. Cisneros, I will have to ask you——

Mr. CISNEROS. I also spell out the payment procedures——

Senator BENTSEN. OK.

Mr. CISNEROS [continuing]. That Customs, apparently, goes through that the local director of Customs explained to me, and that is in here.

Senator BENTSEN. OK. Mr. Vale, if you please have your testimony. And you head the Mexico-Texas Bridge Owners Association, as I understand it?

Mr. VALE. That's correct.

Senator BENTSEN. OK.

STATEMENT OF S.F. (SAM) VALE, PRESIDENT, MEXICO-TEXAS BRIDGE OWNERS ASSOCIATION, RIO GRANDE CITY, TX

Mr. VALE. And I do not read my testimony. I will summarize it. If the staff will enjoy reading it——

The Bridge owners, the Mexico-Texas Bridge Owners——

Senator BENTSEN. I usually find my staff prepares more eloquent testimony for me too.

Mr. VALE. The Bridge Owners Association has 11 members from El Paso to Brownsville, all the major points of entry that are involved in trade and commerce are members. We have 13 bridges, 1 ferry, and 10 community representatives.

You have heard a lot of statements and you will hear a lot more and I am a little bit embarrassed to talk to you about the border because you could probably give us a good lesson by preaching to the choir, but I presume we are doing this for the record.

Senator BENTSEN. As I recall, I put in the permit for that ferry, too.

Mr. VALE. That is correct.

Senator BENTSEN. Los Ebanos.

Mr. VALE. That is correct. That is correct. The problem that we are experiencing today is basically that you have three agencies, the Federal Government, INS, Customs and Agriculture. And as you know, INS and Customs are at principal ones that do the staffing at the international bridges. There is no system today to equate the staffing level at bridges to the needs of international trade commerce and tourists. It's always done after the facts.

The duties of these inspectors are many and they involve of course, many different Federal laws. We see that there is two possible approaches to resolving some of the congestion problems. One would be to improve the efficiency level of the current manpower at the international bridges and the other is to add new primary and secondary inspectors. And I want to stress that primary and secondary inspectors because of Customs added personnel, they don't always add them at the primary and secondary level. It could be headquarters, it could be investigators, it could be any other jobs that they perform. So what you really have to look at is where are the people being cut. If they are being cut in headquarters in Washington, we don't mind. If they are going to be cut at the primary and secondary level at the bridges, we have some great concerns.

We need to improve the efficiency of the present personnel. And I think that there is a lot that can be done in that regard. Primary is, you know, is that place where the first person arrives and you declare if you are a citizen and if you have any purposes coming in. This is supposed to be shared on a 50–50 basis. It is not always done between Immigration and Customs. They have agreements, but they don't live up to the agreements. On paper it looks like there is some pretty good cooperation and practice but that it isn't.

Secondary is where you have closer checks of your vehicles and documents for tourist purposes and so forth. Customs and Immigrations do cross over training at the primary level but they say they cannot do it at the secondary level because it's too complicated. But we disagree with that. We think the level, the educational level of the Customs and Immigration officers is sufficient to go ahead and have cross training to where they can each—an Immigration guide can check luggage as well as anybody else. And unless it's some very special commercial entry, he should be able to handle most of the secondary functions. And it is done in many places right now. For example, the McAllen Airport, twelve hours is manned by Customs, 12 hours is manned by Immigration. So there should be no prohibition to this cross manning in secondary levels.

The bridges are also congested at peak periods. Now, this varies from the time of day, the day of week, the holidays, the season of the year and other special events that come in. It averages—a Customs inspector averages about 20 seconds at primary inspecting a

vehicle. And in 20 seconds, you have to determine citizenship, he has to determine the goods that are being declared, and he has to give a quick glance around the vehicle to see if there is anything that would lead him to believe that there is something else that he should send over to secondary.

Now, today the way the situation is, for an inspector to do his job, he is going to create congestion. If he does not do his job, then he is not serving the country because we are risking the introduction of illicit drugs. So we have a dilemma.

Now, the last 18 months have seen an increase of seizures in the southwest border, about 27 percent. And we want to compliment the Services for doing this. We firmly believe that our laws should be obeyed. However, there is a, you know, a problem in that the simple solution is not just to go out and stop the drugs. We have to have a compatible joint system between commerce, trade and the enforcement of our laws.

Now, what we'd like to do is point out that we have made every effort in the association; we have visited with Commissioner von Raab. We have visited with Commissioner Nelson last October. We wanted to meet with them jointly; we could not. For whatever reason, curfewism rears its ugly head. And that is part of the problem in the corporation between the two services that exist along the border, you know today.

We have—we need a joint command at the bridges. Senator, at the present time there is nobody at the bridges that can give an order to all the Federal personnel. Shift you from here to there.

Immigration has its chain of command. Customs has its chain of command. Nobody is what we in the private sector would call a manager, a port manager. And I will try to——

Senator BENTSEN. Why don't you take another 2 or 3 minutes?

Mr. VALE. All right. So you have two chains of command there.

We've got some other idea that might be able to benefit. For example, there are only 30 percent of all Customs Personnel that are actually used at the primary lanes which handle approximately 80 to 90 percent of the traffic. We feel that we need much more primary lanes. This is going to involve some new construction and so forth and cooperation on the part of the bridge owner. And we are perfectly willing to do this.

We need to hire more people from the southwest border. There is tremendous amounts of turnover in the level of people. You get a man hired from Pennsylvania, he is not on duty more than a few months and he is putting in for a transfer to some port closer to home, which is understandable. It will also solve some of the language problems in the primary in dealing with Mexican nationals.

We also need to have some attitude improvements along the border. Sometimes you get some new personnel. They come in there and they only think of their police activities and they do not understand that there is the word service in their particular organization titles, and that is to give service to the public, the international trading and commerce public.

There is a program, they used to be called the WAE's, where they brought on off-duty police officers, DPS and teachers during peak periods to attempt to come in and solve the problems because you cannot plan to have on a year-round basis, people there to

handle only the peaks because many times they'll be doing nothing. So we need some system that allows them to bring on temporary help. And we found that these people are probably stricter than many of the regular Customs officers. They'll refer more to secondary than anybody else.

Now, there is some problems in that you have to have it frequent enough to where it makes a person want to stay on call for these type of jobs. They have to be given enough work and not just called once every 6 months.

We have developed with the United States Customs a set of suggestions which might improve the atmosphere along the border, work out agreements regarding trucks, importers, exporters, user licenses, transportation for conveyances. What I am referring to here is that we can use a steady pool of drivers known to the U.S. Customs. They can have Customs identifications. Any driver that does not have Customs identification would not be expected to go through a more severe check.

Commercial traffic creates an awful lot of congestion when you have bridges lined up. We also have some ideas about coordinating with Mexican Customs on the release of vehicles. It doesn't do any good to release 30 vehicles from Mexican Customs if you only have space for 5 in the import lot.

These are the types of problems that we are working on. We believe that we need some very moderate devanning stations created where you can come in and unload part or all of a truck in very quick time. Presently you have nothing other than stevedore manual labor to go and unload a truck. And that takes a considerable amount of time. So these types of improvements can really expedite the traffic.

The bottom line is though there is only so many hours or so many vehicles that are inspected and cleared per hour no matter how hard he works or how hard he tries, and you really are going to need more at the primary and secondary level.

We have gone so far as to have some very critical meetings with the U.S. Customs in El Paso. We were invited by Licenciado Jose Skale Garcia, Director of General and Mexican Customs, to visit Mexico City. We did so on January 26. They expressed a lot of interest on cooperating with U.S. Customs. This is the moment to seize in Mexican history to take advantage of their desire to facilitate and reduce the cost of their imports and to improve their exports. We've got some leverage here that we can use to get what we want from them. However, U.S. Customs is linking the ability to improve commerce and trade at the ports to the overall attitude of the Mexican Government on the drug problems.

We feel that there should be a linkage and it should not be 100-percent linkage to where the rest of us suffer because they cannot get what they need from the Defense Department in Mexico or from the Federal Judicial Police——

Senator BENTSEN. Let me understand that, Mr. Vale. What you are saying is that U.S. Customs is not working on trying to work out the differences with Mexican Customs on the commercial side because of their differences that we have on drug interdiction and enforcement there. Is that what you are saying?

Mr. VALE. Yes, sir. And in fact, the Port Director for Commissioner von Raab said to us in Washington that if you will use your influence as bridge owners to get them to enforce the drug laws, we will get you what you need at the international borders. And that's a good idea but if it's taken to the logical conclusion, it can create a lot of harm.

Senator BENTSEN. Harm to both sides.

Mr. VALE. For both sides, yes, sir.

Senator BENTSEN. We should ourselves put the——

Mr. VALE. Yes, sir. And you have a man that has recently been appointed with instructions by the Secretary of Treasury in Mexico to improve and modernize the Customs system, he is under tremendous pressure to do this. We should be willing to cooperate with him. He is very much interested in joint clearance procedures whereby there would be a U.S. officer on the Mexican side preinspecting the trucks to assist him and when that trucks hits the U.S. side, he's already got his seal on the door that he has been inside of it.

Now, this was being experimented with prior to the Camarena murder in Guadalajara, and for security reasons they shut it down. Now, there is resistance in U.S. Customs to try and experiment with this. We urge them to have some pilot projects to see if it can be developed at Laredo or McAllen or Brownsville, some of your principal ports, or El Paso. And these type of activities, we have to be willing to cooperate with them. We have to give them something they need so they can cooperate with us. And it's not at this time being done in a fashion that I would say as a businessman would be received responsibly in Mexico.

They asked us in Mexico City to ask U.S. Customs to allow them to plug into our radar screen so that they could detect planes going south. They say a plane going south to pick up a load, if we picked it, that's two shots at it. You got a shot going south and one coming north. They also brought up the fact that there is some serious concerns on their part about the fact that there is an awful lot of passage, acceptance on our side of the river of smuggling going into Mexico, particularly in electronics and so forth. And this is a concern to their fiscal policy in Mexico.

So there are things that we are ignoring, the fact that we do have a significant amount of illegal interdiction of substances into Mexico our side. So they do have some concerns that don't seem to be addressed too often.

Senator BENTSEN. Mr. Cisneros, educate me a little here on your port insofar as traffic coming in from Mexico. Is that being handled all right insofar as Customs efforts?

Mr. CISNEROS. Well, of course, because of the economic crisis over the last four years, that volume has declined considerably in some areas. But under normal conditions, sometimes we would have very special public hearings on the waterfront away from the vehicles arriving from the bridges that are tied up in congestion. That is a problem. And the other thing is a lot of trucks that are bringing things like steel plates and steel cars, minerals and stuff like this by truck, coming in large volumes in convoys, should we say, and they jam up the bridges. And this creates problems.

We feel that the port needs a bridge very badly because we need to get the heavy trucks, the hazardous materials and a lot of rail traffic that presently congests the bridge to get out of the downtown area. They could have a very negative impact on the people in our present urban bridges.

The other thing Sam was referring to is, well, I refer to it in here, the lack of adequate truck parking areas in the present bridges.

Senator BENTSEN. OK.

Mr. CISNEROS. And when I was in Washington, we talked about coordinating our bridge paying with the GSA and Customs people to make sure that we design an ideal optimum of Customs inspection center for trucks and the rail cars. In fact, this joint inspection that he refers to is being done by the railroads right now where a Customs inspector from here will go to the rail yard on the Mexican side and they will jointly inspect the rail car so that the trains can cross the bridge without having to stop.

Senator BENTSEN. Mr. Cisneros, on the user fee, let me tell you my concern. It was thought of, where you collect a ticket and paid for the ticket that you also collect a fee. That was thought of. I don't know who talked to you because it was discussed in the Committee.

Mr. CISNEROS. OK.

Senator BENTSEN. But they were also talking about putting a fee on every person that walked across that border, walked across that bridge and on every car that came across that bridge. And very frankly, we defeated that and didn't allow it. And I will tell you what you run into. When you try to set up a trust fund for that purpose and say you are going to use that money to try to improve the service, we did set up a fund and the user fees go into that fund, but we see in this request on the appropriation by the administration, we don't see it utilized. Now, they may come back and try to do that. At this point they haven't done it. The other problem we run into in those trust funds is that we have seen over the last 4 or 5 years that that money has not been used, as when we are talking about airport funding. There is a prime example of it. We have all kinds of problems across this Nation about the incredible increase in air traffic and more near misses. And apparently, not enough controllers, and trained controllers and not enough of the modern equipment that is available for airports at the same time and the trust fund not being used to that extent. So there is not a direct correlation between the fee being collected and the amount of money spent on that purpose.

So what was deemed to be a user fee, with the idea it was going to be spent for that purpose, isn't necessarily the way it works out.

Mr. CISNEROS. OK. But——

Senator BENTSEN. And that's what worries us some in that process.

Mr. VALE. Senator, as you so amiably have pointed out, it's not a problem of money. For example, in McAllen Customs lasted in 1984, the last time we had some records, they collected $26 million in duties. Now, they had something like 20 to 35 people on the job there. But the Customs side another 30 some odd people at Immi-

gration. You can divide that out and find out that they are not making those kinds of salaries to use it up. I think 90 to 94 cents out of every dollar they collect is a net profit to the U.S. Treasury.

Senator BENTSEN. Well, the numbers we have is that for every dollar you spend on Customs, the Treasury gets back approximately $17. It is a revenue raiser.

And that's why it seems to be a contradiction in terms to talk about saving money on the budget to cut back on 2,000 personnel, where they have been revenue raisers, net raisers to the Treasury and say that that's going to cut the deficit in the budget.

This is generally being proposed by OMB, that's where it's coming from. And that's one of the major purposes, of course, of these hearings is to delve into that and see how much truth there is to those allegations.

Mr. VALE. Where they make those cuts, I think, if they do make any cuts, would be critical. It's not to the total numbers that count; it's where they do it.

It's just a situation like people don't understand the interior of the United States if there is retail sales on the border that the goods that are sold in the retail stores by and large are manufactured in the rest of the United States. We have to understand that it's not just a border benefit when we have Customs and Immigration officers, the functions they perform are many, but the primary and secondary levels are the ones that move the traffic. And that's where we need the help.

McAllen's foreign trades zone reduced the national trade deficit 1 percent in 1985. They have earned over $2 billion for Customs in the course of the history of that zone.

Senator BENTSEN. They earned how much?

Mr. VALE. Two billion dollars over the course of 10 or 15 year history of the zone.

Senator BENTSEN. That impresses even a fellow working in Washington.

Mr. VALE. And if we would have had 99 other communities like McAllen in 1985, there would have been no national deficit in foreign trade.

Mr. CISNEROS. One other aspect, the port authorities in this country themselves here in Brownsville, we are going to the automated control systems and setting up computer systems for the assistance of more efficient Customs operations. We've done this already in our foreign trade zone here at the Port of Brownsville. And to help stimulate the efficiency of the present service, I think our local Customs Services are now going to an automated controls and clearance system utilizing computers that I am sure some of the people that will testify will relate to that.

But the local government and local business are making efforts to coordinate, cooperate with Customs to make the whole process more efficient.

Senator BENTSEN. Yes. Well, I want to delve into that some more, too, when we get people that are dealing with that daily to get a better evaluation of it. And gentlemen, thank you very much. I really want all of your testimony for the record, though. And it's helpful to us.

Mr. VALE. Thank you on getting rid of that user fee.

Senator BENTSEN. I get about 1,000 letters a day. And I can imagine what I would have gotten if that thing would have gone into effect.

Our next panel of witnesses will be Mr. Frank Parker, president of Parker & Co., Brownsville, TX; Mr. Al Roser and Mr. Lee Cisneros, both Customs brokers.

Mr. Parker, if you would proceed, please.

STATEMENT OF FRANK PARKER, PRESIDENT, PARKER CO., BROWNSVILLE, TX

Mr. PARKER. A lot of my points have been brought up in various testimonies, so I am going to outline——

Senator BENTSEN. Let me tell you what I found out in Washington: You have to say something 44 times before someone finally says, "oh, by the way, did you hear what he said?" So, you go ahead. You make your point.

Mr. PARKER. I'd like to say I am behind the drug interdiction program. I am behind the drug interdiction program 100 percent. I feel that it's a very vital and important area to our local economy to keep the drug traffickers out of here. I also feel the U.S. Customs Service is very important to the Brownsville economy, to the foreign trade zone, to the Port of Brownsville, and through our two international bridges, that we use to cross our country. With the implementation of the user fees, we felt that I and my constituent supporters felt that we would get increased service. And not to find out that we might have a cut in service is worrying us.

Since 1980, we have already lost three import specialists which provide consultations to our client and our perspective imports.

I do believe in the automation process and believe we do need to cut the import paperwork that is required and automation can handle that to a certain degree. But I also feel that there are some areas that we do need the primary and secondary inspectors to handle this.

We would need a sufficiently staffed Customs Service to create a structure in Brownsville to make us competitive. And I feel we cannot get that.

We do need improvements to our truck and rail traffic facilities, and we don't know how somebody can contemplate cutting personnel when we have to look at lines of cars, watching our trucks sit in line for maybe an hour moving across the bridge because Customs is inspecting all the cars. We feel the only solution to that could be to put more primary and secondary people in there to get the cars moving so we can move the commercial traffic because they are jammed up because of the cars.

And that's basically a summary of what I had to say.

Senator BENTSEN. Thank you. If you'd like some more time we will get back to you.

Mr. Roser.

STATEMENT OF AL ROSER, PRESIDENT, ROSER CUSTOMS SERVICE, BROWNSVILLE, TX

Mr. ROSER. Thank you. I'm going to follow him in that I have to do my talk orally because I misplaced my copy of the written state-

ments. But we all agree that the cut in this 1988 budget affecting Customs is going to hurt us, it's going to devastate us as far as the handling by Customs of the commercial importations.

Now, Brownsville is a very unique port in that it is the only one in the United States where Customs has to handle importations with four modes of transportation; that is, rail, truck, air and vessel. And so the stations that are scattered throughout Brownsville, it's by cutting back on the personnel, it means that the effectiveness of Customs to examine and release merchandise is going to be inferior. But I want to target my discussion or my little presentation on the importation by truck. Why? Two reasons.

We all agree that the maquiladoras are growing and are going to continue to grow in Mexico and hopefully in Matamoros.

In January of 1986, we had 40 maquiladoras in Matamoros, January 1987, we had 50, though we have a 25-percent increase in 1 year. And we expect the quantum to grow this year. And that simply means more personnel, cuts in personnel in the import lots, the bridge import lots, to handle that traffic, otherwise we are going to have a slow down into the interior of Matamoros.

The other area that should bring more traffic into the United States and from Matamoros to Brownsville is the fact that Mexico, the latter part of last year, joined GAP, a general agreement for cattle and trade. And that should mean an increase in international traffic. It certainly should mean more traffic from Matamoros to Mexico and vice versa. So we have those two factors.

Coupled with that, it is the philosophy that practice by the maquiladoras of just in time deliveries, what typically happens everyday, and this is something we copied from the Japanese, is that when they load a truck in the maquiladora plant in Matamoros, production that just came off the production line and goes on that truck, and the intent then is to cross the dispatch from Mexican and U.S. Customs, get to the truck and we're carrier in Brownsville that same night, and depart that same night. So that in the case of their carrier, shipments that will be anywhere in the United States the next morning, the truck shipments going anywhere in Texas and the major cities, that will be delivered at least that same day. So this overnight concept and this just in time delivery is extremely important for the maquiladoras.

You cut down the personnel and you continue to work with the import lots which are today inadequate, let alone what's going to happen with the growth, you're working sometimes now like sardines in a can and they back up. What's going to happen when our, this, all this contemplated volume of commercial importations do come about? It's just going to be aggravated because it is cut and it is the proposed cut by the administration, which presumably means not only cut in salary personnel, but also moneys for investment in physical expansion.

In the same area of growth, I am happy to say, not comparable to McAllen trade zone, but we are finally getting off the ground, it's been in operation locally 5 years, we finally got maquiladora operators interested in it and I am happy to say that they use it not only in the maquiladoras in Matamoros but the twin plants, that is for the plants in Brownsville. And that requires just in time, too, because what you do, or request is quick delivery and re-

lease of foreign components or the primary component to go into the twin plants of Matamoros and Brownsville.

And finally, yes, we will be affected as far as the Matamoros and Brownsville economy alone in cutting the payrolls of Customs officers, means less circulation of money in the local economy and certainly new or potential maquiladoras, looking at the area and seeing these long delays of trying to cross their product to or from Matamoros we could see where it would be discouraging to them and they go somewhere else.

Senator BENTSEN. Thank you very much. Mr. Cisneros.

Mr. CISNEROS. Senator Bentsen, thank you for taking the time to come here. Your opening remarks were very nice and in the sense that we know we are all working toward the same goal. There is no way that we think anybody did justify budget reductions for U.S. Custom Services.

You have a copy of the written presentation and I would like to sort of summarize——

Senator BENTSEN. That will be fine. It will be taken in its entirety for the record.

Mr. CISNEROS. OK. Ports along the Texas border, Brownsville, Eagle Pass, and Hidalgo and Laredo have for years been handling commercial importations and now we hear of the tests it's trying to justify reduction in budget because of centralization of programs and because of automations. Our opinion is that automation, neither automation nor centralization are in place yet to the point where they can test reduction of the budget. And we cannot come up with some examples. Well, all of these ports have traditionally been moving cargo from Mexico to the U.S. and where we had import specialists assigned to issue another one of the ports, through the centralization of classification and valuation an importer or perspective importer trying to move cargo through the port of Brownsville must now drive over two hundred miles to the Laredo Custom House in order to get a consultation and in order to discuss a situation, and in order to avoid problems or a fraud situation because of misinterpretation of laws.

Senator BENTSEN. How often does that happen if you are dealing in products in the number of shipments, how often would you have that kind of——

Mr. CISNEROS. We would hope——

Senator BENTSEN. Percentagewise.

Mr. CISNEROS. We would have to go to Customs every day, that would represent a new customer. But during the last let's say 90 days, we have been to Laredo four times. The only way to get——

Senator BENTSEN. And previously it had been handled here?

Mr. CISNEROS. Yes, sir. The only way to get to Laredo is by driving. So you are talking about at 55 miles an hour, 4-hour drive over, a 4-hour drive back.

Senator BENTSEN. Mr. Cisneros, I hope your credibility—I withdraw my statement. Drive whatever speed you say, sir.

Mr. CISNEROS. My driving record will attest to that, sir.

Centralization at this district, 23d District of Laredo, was being discussed 4 or 5 years ago. You cannot find anybody in the importing community to agree to the idea.

However, steps were taken to reduce personnel import specialists, here again, this is what we are going to Laredo for, import specialists, the numbers were reduced where we used to have five import specialists I would say 5 years ago, we are down to one import specialist at Brownsville.

The one import specialist of Brownsville is a very dedicated person. He is a reliable person. However, there is no way that one person can handle the business in the classification evaluation section which the import specialists works out, there is one clerk to assist. So not only does he have to act as an import specialist, he is a clerk half of the time.

The perspective importer approached the import specialist locally, he will have to come back and say, since the economy is being handled by the import specialist of Laredo, go to us there and get your answers.

I think we—that should justify the fact that centralization is not working at all. The inconvenience, what it has done, it has placed Brownsville at another course of a great disadvantage to Laredo. If I were a perspective importer, I think I would rather go and import to Laredo rather than have to go back and forth all the time.

Senator BENTSEN. Let me ask you a question on that for a moment, if I may?

Mr. CISNEROS. Sure.

Senator BENTSEN. Why couldn't you just phone Laredo?

Mr. CISNEROS. Senator, there are some commodities, some types of importation that can be handled by phone. This is one of the justifications of the ways that Customs tried to justify centralization. There is an eight hundred number we can pick up and we can call. And unfortunately, our tariff tax, regulations statutes are made and have been interpreted and kicked around. Sometimes it is very difficult to explain over the phone how you are assembling a transistor radio, how you are assembling an automobile part without actually having drawings and pieces of the part there for an import specialist.

Terminology can—import specialists are a great help to the importing community. Their expertise will help the importer by keeping him out of trouble. Many times by phone we can say, "well, we cut this piece." OK. Regulations says as soon as you cut it is a dutiable item. Now, it could have been a trimming operation. The import specialist is there sitting in front of you. We will consider that trim and you don't have to pay.

So there is some very complex types of importations that really require the need of an import specialist in our side.

Now, there are other types of commodities that——

Senator BENTSEN. You say a difference between a trimming and a cutting is a visual interpretation often?

Mr. CISNEROS. Well, the inexperience of the perspective importer using the wrong terminology——

Senator BENTSEN. Uh-huh.

Mr. CISNEROS [continuing]. Would have a big effect on that.

Senator BENTSEN. Well, you do agree that they ought to be moving more in the way of automation, I suppose, don't you?

Mr. CISNEROS. Definitely.

Senator BENTSEN. And a modernizing of procedure?

Mr. CISNEROS. Definitely.

Senator BENTSEN. It's that you feel they tried to move it too fast, in part?

Mr. CISNEROS. Well, when the Reagan administration is trying to use automation as a way of justifying the budget reduction, we don't agree at this point. The private sector has been automating and is doing a very good job, but they have been working for 20, 30 years on automation. I know we ourselves have done a lot of automation over the last 10 years.

When Customs counsel says that programs like line release, ABI and cargo selectivity will reduce the need for personnel, I don't doubt it will do it but it's going to be 10 or 15 years before that happens. Line release is not on stream at this point. Line release was piloted at Buffalo, NY in August. The plan called for Laredo to be on it within 30 days and we are still, Customs is still not out of Buffalo. And that was in August. And then the rest of the country was scheduled within 30 days. So I am one for automation. And it will help reduce the expenses, it will reduce personnel, but it is not on line.

Also, we must take into consideration that at this point Customs has two major missions to consider: Facilitation of cargo which has been there all the time, moving cargo in a timely fashion. Now, drug interdiction is a major mission of the U.S. Customs. I think that everybody in this room will agree that everybody is for drug interdiction. Nobody is going to try to put a damper on that.

However, also when we are talking about line release and expediting the moving of commercial vehicles on the bridge, this drug interdiction program will be in direct conflict with it. When line release is designed to move cargo in a hurry, cargo will—line release principle talks about cargo coming in with an invoice and a bar code label and an inspector will run one on that bar code label and because of previous information, road risks and what have you, the cargo may move immediately. Yet on the other hand, we have the drug interdiction problem and all of this can be countered or offset, all of this automation because if Customs is going to say "we need to take a closer look, we need to open more boxes" and there goes your automation.

Senator BENTSEN. They tell me that about before 1981 Customs looked at every package, sometimes in a very cursory manner and now we move to ACS and selectivity functions and identifying, as you say, high risks shipments, too. But I understand now that we only have about two percent of shipments being inspected. Do you think that's adequate inspection?

Mr. CISNEROS. That is not adequate inspection because of the drug problems that we have.

Senator BENTSEN. All right. Let me ask you about another one that you brought up which I was interested in. When you talk about quick delivery and release, which you are quite right, we really borrowed from the Japanese in that one, but in doing that I get, you know, I get concerned about our having some of those people working on this side of the border when we are talking about twin plants. Do you think that having quick delivery and release would lead to having more installations, twin installations for

those on the other side of the border on this side to complement the quick delivery and release? Does it work that way or not?

Mr. CISNEROS. My opinion would be that they are not related.

Senator BENTSEN. You don't think they are related?

Mr. CISNEROS. No.

Senator BENTSEN. OK.

Mr. CISNEROS. I know in your opening comments you mentioned the fact that you were for the twin plant concept.

Senator BENTSEN. To the extent we can get it.

Mr. CISNEROS. Right. And of course, I think I speak for the local community and perhaps for other people that are involved in the maquila operation as to being on those El Paso sessions that they have. And you see the U.S., we still, the U.S. still gains, even though you don't have the twin plant operation. The maquilas are still U.S. components.

Senator BENTSEN. Oh, I understand that. I understand that very well. And most of those components are not from the border area. Most of them are shipped from the interior of the United States and another part of the United States, wherever. And what we have a tendency to get here, and that's not all bad, we get management on this side living over here a lot and we get a lot of technical people with high levels of expertise that they don't have perhaps, available in sufficient numbers on the Mexican side. So we benefit to that degree in having those people spending their money here and living here and giving some tax fees and all of that type of thing.

But to the extent we can further bolster it on this side, obviously, that's what I want to see.

Mr. CISNEROS. Well, that, I guess we would all like to see it. However, coming back to your question——

Senator BENTSEN. All right.

Mr. CISNEROS. I don't think that——

Senator BENTSEN. You don't think the quick release is right?

Mr. CISNEROS. Not in this relationship.

Senator BENTSEN. All right. Now, please, anyone of the three of you, if you want a run, I'd like to have it.

Mr. PARKER. I am currently participating in part of the automation, the Automation Broker Interfaith, and I feel they have brought upon to the seminars in Houston where they presented it, and decided I liked it. I went ahead and signed up for it and I got a program that will do it.

I am not totally on the money right now, but I feel also that they don't even have enough personnel in this area to administrate the people that are on in it. We have questions; we call our representative, he is out, he is out. There is nothing we can do until we can get that person back in here to get some questions answered, which is delaying us getting on this also.

Mr. ROSER. I'd like to make a comment on the twin plants so that those out there that know what it really means, in the ideal situation, the twin plant is when you have a plant on the U.S. side of the border that has primarily capital intensive work. And those products that come out of that plant are then taken to Matamoros for at labor intensive work. And the ideal situation is—and Bill Wolfe is here. Hopefully he will elaborate and show you how many

people he has to employ on the U.S. side or will on the capital intensive part of its whole operation. So it's a beautiful windshield wiper situation. And we do benefit much more with that.

Many of the plants are misconstrued plants when they have warehouses on the U.S. side. Warehouses used to stage the components that are coming in from all parts of the United States. And they are staged there and they truck to Matamoros or assembly and brought back.

You have lower paying people in the warehouses, notwithstanding you do have work for the people in Brownsville. But the ideal situation is the labor and capital intensive——

Senator BENTSEN. Mr. Roser, let me say this: Unless you can continue to show benefits to this side of the border, you will not be able to sustain the exemption under 806 and 807. And that's imperative. Politically it is impossible unless you show that there are jobs also created on this side. And it's not just on that side. Those are the realities in my opinion. And it's not just a question of captial. It has to be something that creates employment on both sides. I think—I will be through in just a minute—and I think frankly that it does in general. And I do support it.

But that objective must never be lost sight of. And the Mexican Government must understand that. And if they start moving those plants down into the interior and at present they have some down there, and my studies show that ninety percent of the shipments out of the maquilas are coming from the border area, about ten percent from the interior of Mexico. But they must not start moving it in that direction or they are going to have problems in sustaining that exemption. That's the way it is. And that's one of the reasons for these hearings.

And that's one of the reasons that I want the message to be clearly understood on the other side so they can avoid that kind of a problem.

Mr. ROSER. I'd like to comment on that a little bit, if I may. We have situations here, dual plant concept where we have Brownsville plants and servicing their interior Mexico plant and so we are getting the benefit of the U.S. side with American labor here, even though they are Mexican plants in the interior 200 or 300 miles away. But that can work and still help the delay.

Mr. PARKER. I'd also like to make a point that when these plants do move in, they tend to increase their orders. It tends to create more jobs also at the component manufacturing plants where they are. I have two customers that are currently exporting to the United Kingdom and also back into Mexico.

Senator BENTSEN. Mr. Parker, I couldn't push that more. And I want that. They shouldn't just say "we are shipping them back to the United States." At the present time, every major trading nation in the world has a surplus in trade except this one. Last year we had a $169 billion trade deficit. We are having an incredible transfer of the wealth of this country. The Japanese are coming in and buying our short term securities and financing us through this kind of a deficit in trade. But they don't have any Marshall Plan in mind. They expect us to pay those off some day. And I don't want my grandchildren just paying interest on debt owned by foreign fi-

nancial institutions. And the only way we pay that off is by increasing our exports and finally getting a surplus in exports.

And that's why when I look at one of these situations I say it must benefit both sides. It just absolutely has to. We're very concerned about having stability in Mexico, but I am even more concerned about the standard of living in this country. These are the folks I hired out to.

Mr. ROSER. Senator Bentsen.

Senator BENTSEN. Yes, Mr. Roser.

Mr. ROSER. I am a little concerned about what you said about we may be shut down on the 806, 807 because we don't have the Twin Plant concept. Granted, that would be the ideal. But I'd rather have the maquiladoras in Mexico, as we all know, than have it overseas, in the Far East, the Middle East, anywhere other than the border. We do have benefits in the banker's trucking firm that Customs brokers like ourselves, a lot of support rendered by Brownsville, so you name it, retailers, because of the Mexican maquiladoras. You can talk to them and say "where do you get most of your business, from the people of Matamoros." Fortunately, they are Mexican terms and they pay their bills.

They are not worried about the peso. But there is a tremendous amount of traffic in the business generated, thank goodness, by the maquiladoras in Brownsville.

Senator BENTSEN. Mr. Roser, I have been an early supporter of the maquilas, came on strong before it became politically popular with some. So I have a long history of involvement. I was born and reared on this border and deeply concerned about its economy. But I am telling you it's under attack. And the more you can show that we also have some jobs created on this side, the sounder it will be and the more secure its future will be. And those manufacturers who come down here and put in their plants better keep that in mind. And I fully understand.

I was citing the figures earlier about the pay of those people over there from the International Trade Commission hearings that I chaired. And they were done in McAllen and were done in El Paso. And we developed those numbers to try to show the justification for the maquilas. But I want it as strong as I can get it. And you further buttress it if we can show that some of the process is done on this side.

Thank you very much. And we will now have our next witnesses. We have Mr. William J. Hughes who is the vice president and general manager of the Sheller Globe Corp. and Mr. R.W. (Bill) Wolfe, who is the president of Trico Technologies Corp.

Mr. Hughes, let's see, I met with your Mr. Cogan last week in Washington, who is discussing the difficulties of exporting automobile parts to Japan and that the U.S. subsidiaries of Japanese companies operating in our country are not buying parts in the United States. It's an interesting phenomenon there what we are up against. When you have a situation where if we want to sell cars in Japan, or they want to sell cars in this country from Japan, that when it comes to having the environmental standards met in the inspection stage and the safety standards, that we get factory certification on the Japanese companies.

But when it comes to our cars going over there, that what you have had in the past is a situation where they did car by car inspection. And the chief executive of one of the largest automobile companies in our country said by the time they get through it's almost time for a model change.

And now what you have seen, you are seeing Japanese companies coming into our country building the automobiles here and then on the parts, not opening up that market to the United States companies and at the same time we can't sell our parts in Japan. And it's getting where it's as difficult to deal in Tennessee as it is to deal in Tokyo.

And that gives me some concern. That's one of the reasons that I have introduced a trade bill which has the basic concept that if a country has access to our markets, then we should demand access to their markets.

And we will be pushing that objective. I am very pleased to have you here to discuss the maquiladoras and what you gentlemen, who have hands on personal experience, have been able to do and what you think can be done and should be done.

Mr. Hughes, would you proceed, please?

STATEMENT OF WILLIAM J. HUGHES, VICE PRESIDENT AND GENERAL MANAGER, SHELLER GLOBE CORP., BROWNSVILLE, TX

Mr. HUGHES. Thank you. I am going to attempt to express the effect of a reduction of U.S. Customs personnel on border economic development and in particular on the Maquiladora operations.

U.S. Customs Service has a vital role to play in the economic development of the border. If the service is inferior, this results in inefficient utilization of time in shipments of materials and wasted time by personnel crossing the border between Matamoros and Brownsville.

At this time, worldwide competitive forces demand that the U.S. industry be efficient and produce world class products. We have been visited by the Japanese recently and are looking into supplying motors, for example, to the Tennessee plants.

Senator BENTSEN. Good luck.

Mr. HUGHES. At the present time there are two bridges between Matamoros and Brownsville. The congestion on these bridges is hard to describe because of both the Mexican and United States tourists, the truck traffic to the Port of Brownsville and the truck traffic to the Maquiladora plants or warehouses on the U.S. side. Crossing time can be from 1 hour to 1½ hours during the day. Last week during the Mexican holidays, the crossing time was 2 to 2½ hours to get trucks and personnel across the border.

The problem, the present problem could be alleviated by the addition of more personnel to man the primary lanes and to do all car and truck inspections in the lot or in the secondary lanes.

We don't think it's right to open trucks and inspect trucks and go under seats in the primary lane while the people are parking on the bridge. We believe that should be done in the secondary lane.

If the Customs Service is reduced and the manning on the primary lane is reduced, the bridge situation will be aggravated. If

one primary lane is eliminated on either of the bridges, the crossing time will automatically go from 1½ hours to over 2 hours.

Another area of concern to the maquiladora program of Brownsville is the potential reduction in the consultation service performed by the Customs import specialist. And I have to agree with Luis here. Talking across the table is a lot better than talking over the phone.

New companies coming to Brownsville must go to Laredo to obtain classification and valuation advice. At times when you go for advice, what happens, one question begets another. You think you are finished and you are having to keep going back again and make sure you are right. This puts Brownsville in a poor position, initially, to obtain new jobs for this area.

As the company expands their operations in Brownsville and Matamoros, the imports specialist activities will expand and they'll be less time for consultation services. There was a strong possibility that due to the lack of contact with the import specialists, a detail and a cost summary will be overlooked and the Customs audit will result in a fine, penalities or worse yet, a conviction of fraud.

An audit is like being stopped by a policeman. He can tap you on the shoulder and say, "I just want to congratulate you on the way you are driving." When the audit takes place, you are sweating.

If the import specialist position is eliminated in Brownsville, all matters pertaining to classification or valuation will have to be settled in Laredo or worse yet, maybe even Houston or Washington.

This will place companies in Brownsville at a disadvantage to those cities that do have an import specialist.

I'd like to thank you for this opportunity to testify here.

Senator BENTSEN. Mr. Hughes, we have some additional time and I will get back to you, then. Mr. Wolfe.

STATEMENT OF R.W. (BILL) WOLFE, PRESIDENT, TRICO TECHNOLOGIES CORP., BROWNSVILLE, TX

Mr. WOLFE. Senator, I, too, would like to tell you that I appreciate your attention to our problems in this area, also.

In regards to Trico, just for a brief moment, we are putting in about 350,000 square feet of manufacturing space in Matamoros and another 350,000 square feet of manufacturing space in Brownsville.

Senator BENTSEN. How about that.

Mr. WOLFE. So it's a good more than a billboard operation. And it is typically the twin plant concept of capital intensive goods or capital intensive manufacturing on this side and labor intensive assembly and packaging on the other side of the bridge. So in that regard, it's traditional.

We have found that to be a very effective way to go about this project.

Through the introductory stages of our company into the area, they go through many, many thought processes. And Trico was no exception to that. They went through a very lengthy thought process and consulted a lot of outside firms and consultants in finding the area.

The areas that you mentioned in your preliminary remarks were all the areas that were looked, the Asian areas, mainly. And since that's where the competition is coming from, why don't you try to just get in combination efforts with the Asians and manufacture parts there, naturally.

The Southern Belt was looked at, the Tex-Mex border, and selling the company was an alternative. So the alternatives are not very pleasant. The Texas/Mexican border was the one that was picked and it was not a close race. So we are in a primary position for a lot of additional business in this area because of this phenemena that we realized or in world competition recently, last 10 years, 10 or 20 years.

One of the things that comes down to, there are many, many variables of which I won't get into, and this late in the program I try not to be redundant on all the suggestions made so far, but one of the variables that you look at is the movement of goods between plants. And that's already been said. The less expensive labor in the area is advertising but there are many other benefits also. One of them is that when you relocate a plant, you get to examine all of things that you did ineffectively before and you get to clean house and you get to bring your operation up with all the latest manufacturing principles and you design your plant to accommodate those things. And one of the latest manufacturing principles is as has been mentioned of course, just in time with the customer and manufacturing resource planning between your plants.

That in effect is a way to cut your cost right along with a lesser expensive labor. And it's almost equally effective if done well. So the movement of goods between the two plants is of primary import.

MRP is designed on the fact that you don't carry a lot of inventory. And those are big time dollars, as you well know. So the movement of truck traffic between the two plants is extremely important.

I would like to say that so far we are not into heavy manufacturing yet. We are in the year of building. We've gone through the net process which takes this long and then you build the buildings in this amount of time. And we are into that phase right now. So our truck traffic is somewhat limited right now. We have found that once the trucks reach the yards, there is a good effort involved in clearing the yard.

We don't find much problem in that regard right now. It's getting the truck across the bridge into the yard. And not to be redundant, but there are times when that is extremely difficult: the holidays, specifically, the agricultural seasons when you have a lot of added truck traffic to the bridge.

I'm not smart enough to sit here and tell Customs how to do their job. There are a few things I guess that you would suggest as being a manufacturing oriented person. When you talk about bar coding automation, those are all things that can be locked into. But the effectiveness of people placement and how the people are relegated to their task on the bridge in an effort to clear the bridge is extremely important.

I would also suggest and I thought of this last night so some people are probably going to chuckle when I say it, but there are

four lanes on the bridge. Sometimes the traffic going this way is pretty light and coming this way is pretty heavy. One lane could be a floater lane on different times, even though it was on the other side of the medium.

So these are things that could be looked into, I think, to improve the effectiveness of the bridge traffic.

I don't know exactly how the cuts will affect it, but I can only imagine that cuts will be negative and have a negative impact on the effectiveness.

And I didn't mention drug trafficking, so I don't want anybody to think that I don't care about that by not mentioning it. I just delegate my remarks to the maquilas.

Once again, I appreciate your attention and the time.

Senator BENTSEN. That's a very interesting message. I was a businessman and I am the only chairman of the Finance Committee in the modern era to have hands on experience building a business so I relate to some of your concerns.

I noticed something the other day Peter Drucker said. You sort of buttress that in saying that you couldn't understand anyone going to South Korea and Taiwan rather than this Mexican border situation, that they ought to be coming here.

I got the impression from you that as you look, that it was hands down as far as choosing this area and that's encouraging to me. I think you are going to see a very substantial growth. One of things that we see is on the Japanese, for example, insofar as the buying of products from LDC's, the lesser developed countries, that the United States bought 57 percent of the merchandise bought. Europeans buy 7 percent and the Japanese buy less than 9 percent. Now, if the rest of them would buy the manufactured products of the lesser developed countries on the same per capita basis as we do, world trade would expand by over $250 billion a year. The world would prosper and these lesser developed countries would be able to pay their debts and would be able to buy more of our products.

All through the 1970's you have seen world trade expand. But starting in the 1980's, you have seen the rise of protectionism and barriers build.

And hopefully that's what we can turn around and break down in trying to increase world trade. And I want to make it, as I have stated it over and over and over again, I have been a strong supporter of the maquiladora program. But it will be attacked and I know that. And I know the political problems that we'll have in Washington in trying to win that fight. And the more we can show that we have economic benefits here, and I helped develop that by the International Trade Commission hearings down here about the amount of money spent over here on this side by those employees earning over there, is significant and important. But to the extent we can also buttress it with a plant over here and employees over here, we are in that much stronger a position. And I hope that American management will consider that as they make their installations here.

I couldn't help but be concerned with what I heard from the president of your company last week about the limitations on our products going into some of these countries.

I think what else you are going to see as we go along is those countries that have enormous trade surpluses with us and who put up all kinds of barriers to our products coming in, that you are going to see action taken by our Government. We cannot sustain that kind of a transfer of wealth interminably. And we will demand and insist on a level playing field, fair trade.

Mr. HUGHES. I think this is happening, for example, when Volkswagen moved into Pennsylvania, the original motors in those cars, the floor motors were from Germany. We have penetrated that market. We have the Volkswagen business at this time and we are working with the company called El Sonic, who is developing, well, they are supplying the motor and the air-conditioning and heating system to the plant in Tennessee.

And right now we have samples in Japan for those motors also.

Senator BENTSEN. Well, what you are seeing is a great change in Mexico that's taking place. One of the previous witnesses talked about joining GATT. The United States cast the first vote for them to join GATT. Now, what you saw previously was so much in the way of licensing to go into Mexico, which led to all kinds of problems, bureaucratic problems, getting licenses and whatever went with that and now moved toward tariffs and the standardization of them. That's a move in the right direction.

You are seeing a substantial change in the way of Government owned businesses in Mexico being privatized, sold to the private sector. I visited with the President of Mexico. I visited with members of the Cabinet concerning that. And that is all to the good and the deep concern in our country for Mexico and it's stability. We are going to learn to try to help Mexico be stable. But we have to, number one, we have to take care of our own concerns and what's happening to us.

Mr. WOLFE. Senator, one more comment, if I might, once folks like yourself help in the establishment of a level playing field, then it comes back to the pure sense of competitiveness——

Senator BENTSEN. That is right.

Mr. WOLFE. That we are going to develop because after you've got the field level we still have to be competitive. This kind of an operation down here establishes that in spades. And one of the first things a company realizes after they have made a move, that we are now out of the trouble area. And as soon as you are about ready to take a deep breath you realize that not only are we out of trouble, but we are competitive. So then you start looking at things that you have never manufactured before and your growth potential is exemplified.

So we are already looking and Trico, and I'm sure a lot of other companies are already looking at, OK we have been relegated in tradition, traditionally in this field, but no with this kind of a move we can't expand our operations. We can expand our playing field, our industrial playing field. So as you build buildings, we are already looking at the walls that you are going to pick out first as you go on out the end.

Senator BENTSEN. That's great.

Mr. WOLFE. Once you get the playing field leveled out, then it's still up to the companies to be competitive. And this place down here doesn't have the space.

Senator BENTSEN. And then to the extent that you cannot just sell back to us, but to sell into Mexico. And the President of Mexico told me that he was going to encourage that up to 20 percent.

Mr. WOLFE. OK.

Senator BENTSEN. Because it sends a message, I think, also to the Mexican industries outside of the maquiladoras, what can be done through the private sector with an infusion of capital and modernized productive facilities. And that means, finally, a lower cost of products to the Mexican people to help curb inflation. And all of that works to our benefit in our own country, I think.

Mr. WOLFE. And we sent our first box of seven hundred samples to Japan last week. So once again, I don't know whether that's going to amount to anything or whether it's a token. But——

Senator BENTSEN. Well, let me tell you, I have a great respect for the Japanese. I think they are very tough and able competitors. But they are a country that had built up an enormous capital and trade surplus. I think that the change in the value of the yen to the dollar of some forty percent over the last couple of years, almost two years is going to make us more competitive.

We have now seen that kind of combination with the South Koreans and the Taiwanese. The Taiwanese have enormous capital surplus, enormous trade surplus, and have given very little in the exchange rate. And the South Koreans have given not at all. And that's part of our problem. I understand the situation with Mexico, but we look on that situation as one of our economic problems, that we are not looking to sweat them too much over it.

Any other comments, gentlemen? Well, you have been very helpful and I am appreciative and I thank you very much for your participation and your attendance. And I am very appreciative of the interest that's been expressing by the media and by concerned citizens here.

This is just the beginning of our hearings. We will go on to Laredo, fly now there. We will fly up there at 55 miles an hour. I shouldn't be that way. I voted for 65, you see.

That will conclude our hearing this morning. Thank you very much.

[Whereupon the hearing was concluded at 11:05 a.m.]

MANAGEMENT OF THE U.S. CUSTOMS SERVICE

WEDNESDAY, FEBRUARY 11, 1987

U.S. SENATE,
COMMITTEE ON FINANCE,
Laredo, TX.

The hearing was convened, pursuant to notice, at 2 p.m., in University Hall, rooms 141 and 142, Laredo State University, Hon. Lloyd Bentsen (chairman) presiding.

Senator BENTSEN. This meeting will come to order. We will have as our first witness the Honorable Senator Judith Zaffirini. She'll be joined by State Representative Henry Cuellar.

And, hopefully, Senator Hector Uribe will be here later. I know of your conflicting schedules in Austin and we are so pleased that you could take time to come down here to highlight your interest and concern. I am further advised that you have some hearings or meetings, back in Austin this afternoon, so we'll have you proceed, if you will.

Now, let me warn you that we have a 5-minute clock, but we'll let you spill over. The thing goes off like some kind of basketball clock, so don't let it alarm you.

STATEMENT OF STATE SENATOR JUDITH ZAFFIRINI

Senator ZAFFIRINI. Senator Bentsen, panel members, distinguished guests, and participants, good afternoon, and thank you for the opportunity to discuss the role of the U.S. Customs in the economic development of the border, with specific reference to Laredo.

Let me point out first that all of us deeply appreciate Senator Bentsen's leadership in addressing the problems of international trade and border economic activities. We also appreciate, Senator, the study you recently released which reviewed thirty programs designed to improve trade with Mexico. Unfortunately, as you mentioned, the study fell short in that it did not point out any recommendations for solving our problems.

This afternoon, you will hear some of Laredo's leading citizens express a legitimate concern of Mexican and American citizens along the border. My purpose today is to focus on the recommendation which would not only provide training and search in the area of U.S. Customs but would also create jobs and stimulate our border economy. More important, it would also establish higher education as a key factor in diversifying our economy and stimulating international trade. Its impact would be not only noble but also regional, national, and international.

The basis for this proposal is that the United States' dependence on foreign trade has increased dramatically over the last two dec-

ades. In 1966, total U.S. dependence on foreign trade was only 7.66 percent; in 1986, it was 14.35 percent. Perhaps more significantly, in 1966, the United States had a small surplus in its international trade. Twenty years later, the country's balance of trade had a deficit of $170 million.

Now, two important conclusions can be drawn from this experience. First, despite an incredibly clear need for the professional development of trade expertise, educational opportunities are severely limited. In fact, the only graduate program in international trade in the country is the MBA in international trade offered right here at Laredo State University.

The second conclusion is that information about international trade is not only in opposition to divulge and availability, but even the limited research available is, at best, fragmented. The United States simply does not have a center to provide analytical and specific information needed by exporters and importers and the general public.

These two problems have placed American business, particularly potential exporters, at a great disadvantage in the international market. In almost all cases, foreign multinationals have access to more information and are better trained in trade issues than their American counterparts. This fact, to a great extent, explains the adverse position of the United States' balance of trade in recent years. Therefore, to eliminate these two problems, and others, today I propose the establishment of a federally funded school on international trade, in partnership with the State of Texas, at Laredo State University.

The school's primary functions would be, first, to offer academic degrees in international trade; second, to serve as a data base center on United States international trade; third, to provide regular and periodic publications on trade issues; fourth, to offer foreign language training for American Government officials and business persons; fifth, to develop programs tailored to meet specific needs, such as specialized trade-related executive training, symposiums and forums for special issues, and training forces on customs regulations and operations.

In addition, because of its location on the border with Mexico, this school of international trade would provide the following services to the border community. First, it would serve as an information base for border businesses; second, it would establish a data base on the border economy and would publish regular and periodic reports on the region; third, it would create production and prime industry for the border industry. Laredo, as the largest inland port in the United States, the gateway to Mexico, would be a living laboratory for students. It is a natural choice to serve as home base for the School of International Trade.

Laredo State University, which, as I mentioned earlier, offers the only MBA in international trade in the country, is already heavily engaged in keeping research and pulication in international trade. Through its Institute of International Trade, it publishes an outstanding quarterly journal and already sponsors excellent conferences and symposiums. Although limited and threatened by the financial situation of the State of Texas, with Federal funding,

Laredo State University could easily and logically expend its activities to host the School of International Trade.

This school would become a training center for the Nation's present and future business and Government leaders. Its graduates would be able to compete effectively with their foreign counterparts. Equally important, this School of International Trade would identify potential export markets for American products and would advise exporters of such opportunities. In addition to providing these and other benefits to the American economy, it would benefit the very depressed economy of Laredo and the border region.

The Federal Government established a precedent for such a project when it funded the East-West Center at the University of Hawaii. If the University of Hawaii could serve as a bridge between the East and the West, Laredo State University could serve as a bridge between the United States and Latin-American countries. Economic development, with education as its foundation, clearly is the key to a better future for our community. The time is now for both bold and innovative solution to our problems.

Would you, Senator Bentsen, as chairman of the Finance Committee, and fellow Texan Jim Wright, as Speaker of the U.S. House of Representatives, with the Texas Governor, Lieutenant Governor, and speaker of the house, who are totally committed to economic development on the border, the time is now to establish a federally funded School of International Trade, in partnership with the State of Texas, at Laredo State University. I have discussed this proposal with Lt. Gov. Bill Hobby and he is supportive.

Senator Bentsen, under your leadership, we can do it. Thank you very much.

Senator BENTSEN. Senator, that is a very creative and interesting proposal, and I don't question it at all. We've got the same kind of problem at the State level as we have in the Federal level, and these programs have a tough time up there. By the same token, the problems of trade are the most difficult we've ever seen in this country, and to be further educated in the process of trying to find ways to turn that around it's important to us. So I'm appreciative of your contribution that you're talking about here. I'll advise the members of the Finance Committee of this kind of a proposal, and, hopefully, we'll have the kind of reaction it deserves.

Let me state—and I know you're pressed for time. I've listened to your statements and I'll burden you with mine; I won't let you get by scot-free before you get back to Austin. Let me tell you why we're doing this. I particularly chose to have these hearings in Laredo and Brownsville because I want people with hands on experience with the difficulties they're having in getting commercial products across the river, with the concerns about drug interdiction, and the question about the maquiladoras. They're under attack by Congressmen from the Northern States who have concern about the jobs leaving and going to Mexico.

In my opinion, the jobs are transferred to Mexico by a company in the United States, and the decision has already been made to move them, and the question is, "Do they go to Taiwan, South Korea, or do they come to the border?" I think that we have a lot to offer along this border. I also think that it's very important that if they

are to continue to have the benefits of 806 and 807, which says that imports should only be taxed for the value added in Mexico, that it's imperative that they stay on this course, not just move into the interior of Mexico.

I have been a supporter of maquiladoras because the International Trade Commission study that I brought down here last year pointed out that from 40 to 60 percent of the income earned by the employees on the other side, in the maquilas, was spent on this side and, therefore, is of mutual benefit.

I have also met with the President of Mexico and with the Minister of Commerce, and other Cabinet officers, to tell them that the only way we can keep those—and I want to keep them—is to show that they benefit both sides. And I keep emphasizing that, too. We have about 300,000 employees along that border now, on the Mexican side. It's the third largest source of foreign earnings.

It is also important that they utilize the 20 percent factor and sell 20 percent of the products of maquilas into Mexico, and not sell all of the balance back to us, but to explore the markets of Europe and Asia, because they're extremely competitive and they bring out good products at competitive prices, and that further strengthens what we do in trying to promote them. It's important that we don't just have a billboard on our side and a plant on that side. We want some of the people living here, whether they're management people or technicians. Or we want a twin plant. That further strengthens our case for the maquilas.

Now to get back to Customs. We've seen the situation where, in this budget, they're talking about cutting back 2,000 people for 1987 and 1988. We hear speeches about stopping drugs coming across and it deeply concerns me, with what they're doing to our people and to our children. To make that speech on one side and then cut back on Customs is a little difficult for me to understand. Because one of the responsibilities of Customs is to stop the drugs from coming in. You have a lot of loyal, capable, hardworking people in Customs. But when you're saying traffic increased across this border in the last 10 years, commercial traffic, by over three times, and the number of personnel to handle that reduced, it makes it extremely difficult for them to do a good and competent job.

So those are our concerns in what we're exploring. In Brownsville, they're telling me they're adding 20 people down there. And I think that's true. But that's because last time we refused to make cuts the administration asked for, and so now they're trying to raise it up to the 20. But the proposal is to cut customs back down by a total of 2,000. So how do you know those 20 employees will stay there. The net result is a reduction. And they tell me that they're not really disturbing us on the number of aircraft that can be used for interdiction of drug running, but I want to be sure that there's somebody sitting in the pilot's seat to fly the plane. And these are the concerns that we're trying to develop and better understand at these hearings. And we will follow up these hearings with hearings in Washington with the officials of the Customs Service coming in to address us. I had Mr. Von Raab in my office in Washington last week discussing some of these problems before I came down for these hearings. But I'm most appreciative.

And if you're on that same aircraft, we'll let you talk right now.

Representative CUELLAR. I appreciate that, Senator. Good afternoon, Senator Bentsen.

Senator BENTSEN. You have some background in customs, as a broker, don't you?

Representative CUELLAR. That's correct.

Senator BENTSEN. Good. All right.

STATEMENT OF STATE REPRESENTATIVE HENRY CUELLAR

Representative CUELLAR. I'm here again on behalf of not only as a State Represenatative, Senator, but also as a small U.S. Custom broker and also as a graduate from Laredo State Univesity in international trade and also as a former professor in the program over here.

My talk today is going to emphasize also in support of Senator Zaffirini's idea. Because, again, I've seen this not only as a professor here but I've also seen the need as a small businessman, the need to develop these educational linkages between international trade, that is, getting involved with the government, whether it's Federal, State or local, programs involved in this effort. Because if we see the situation at the bridge, at this time, if you look at the State perspective, we have the State trying to diversify by going into the international market. The State of Texas, at this time—in fact, there's legislation at this time that we're hoping we can author and cosponsor. The State of Texas is moving to this direction, and since we're moving to this direction, it would hinder us if there would be a reduction in the amount of customs agents. Because if we're trying to promote international trade and have the free movement of goods, then this would hinder us if we would have a reduction of the Customs agents.

So it would hurt the local community and, of course, the State effort—the Statewide effort in trying to promote international trade, and this is why I'm hoping we could coordinate the effort between the State—as the Senator from the great State of Texas, coordinate the efforts in promoting international trade, which we need to do here in Texas, and, at the same time, make sure that we have sufficient U.S. Customs agents to make sure that the facilitation of those goods are properly handled.

It's very hard to address that particular problem because, again, the State of Texas—the U.S. Government, as a whole, is—we're having the deficit and the great budget problems, and it's very hard, but I believe that there's certain times that you need to invest a little bit more money, because, in return, the investment would be worth a lot more. And I believe the international trade arena is one of those efforts, and if we don't open up our bridges, or, should I say, facilitate our bridges with the sufficient amount of U.S. Customs agents, then that would hinder not only the trade deficit that we have as a Nation, but also as a State.

So I'm here asking, on behalf of the State prospective, to be sure that we have the sufficient amount of Customs agents. And, again, I've seen this not only as a small U.S. Customs broker here on the border, but I've also seen this on behalf of the State. Because we need to make sure that we promote this international trade.

The other thing in support of Senator Zaffirini's idea, again, I graduated from here as a student from the master's program and I've also taught here, and I see that there's a great need to have an institution, and we're hoping that it would be federally funded, and we'll see if we can do our part at the State level, to try to put a little bit more money into a school that would specialize in international trade.

If you look across the Nation—across the world, you see so many other nations that have emphasized international trade, that have schools that specialize in international trade. Laredo State University has a single university or college to emphasize its international trade. Thunderbird has a master's in international management, but it's a little big different from this university. This is the only university that we have. If you look at the State perspective—and, again, I'm trying to provide that—the Texas-elect Committee on Higher Education is talking about merging universities or colleges to avoid the duplication of services. Well, I can tell you, Senator, that we will have no duplication of services in this arena because there's no other school in the State of Texas or the United States that provides this service.

So, again, I have spoken to the Honorable Gib Lewis, the speaker of the house, on this proposal, the proposal that Senator Zaffirini has brought up, and he is in full support of this idea, to promote a school, which we don't have in the State of Texas, and in the United States, a school that will specialize in international trade. Because we need to address that particular program in order to address the particular problem of the reduction of customs agents.

So I'm hoping that you can bring that message or take that message to Washington, Senator Bentsen.

Senator BENTSEN. I think it sounds like an awful good idea. And I will be very pleased to inform the members of the committee of the fact that the establishment of the school would play a part in this. But I would think that it would expand the education—I'm intrigued by the idea.

You know, Senator, sometimes these jobs, in the public service, we wonder some nights if we should be doing what we're doing. But I must say last night I had something happen to remind me of that, and talking about education, I couldn't agree with you more. But I was talking to some people that, in 1971, they wouldn't make student loans. They were withdrawing from them because of all the complexities and all that. I called together a group of bankers in south Texas, and some top business leaders, and I said, "the only way that we can really increase the income of the people in this area is to help them on education. That's the best of all. I guess there's other ways to do it, but best of all it's educated people. It's terribly important, with the cost of education, that we be able to get these sums." I said, "What I want to do is establish an organization that will buy these loans from the banks. Then banks make the loans and then these organizations service these loans, and if we can get some seed money from the Government, then I think that those loans would be made." That was in 1971 and we established something called cost debt for south Texas. I got a little seed money from EEA.

Now, last night they told me that there are now over 30,000 students that have been financed in south Texas with these loans, over $165 million in loans for kids from south Texas for education. The delinquency rate on those loans is below the national average and not $1 of Government money is any longer in the program. It's all now financed by the private sector. That's the sort of thing you were talking about in trying to do something for this area.

Representative CUELLAR. If you can get us a little bit of that seed money, we would really appreciate it.

Senator BENTSEN. It's tough. Let me see what I can do. I'm so pleased to have you both here; you've been very helpful. If you have something else to add?

Senator ZAFFIRINI. Thank you very much, Senator, for coming to Laredo and helping us the way you have.

Senator BENTSEN. Thank you.

Our next witnesses will be a panel consisting of Mr. Gary Jacobs, who's the Chief Executive Officer of the Laredo National Bank; Mr. John Keck, President of the Union National Bank; Mr. Dennis Nixon, who's President of the International Bank of Commerce.

Gentlemen, we're happy to have you.

Mr. Jacobs, are you ready to lead off here?

Mr. JACOBS. Well, I was hoping you would take somebody else first.

Senator BENTSEN. I'll do that. Mr. Keck?

STATEMENT OF JOHN H. KECK, PRESIDENT, UNION NATIONAL BANK, LAREDO, TX

Mr. KECK. Thank you, Mr. Chairman. I sincerely appreciate this opportunity to—to have you here in Laredo and have this opportunity, as a banker, to express some views which I know you are apathetic with.

On the problem side of the balance sheet, I believe most of the details have been spelled out fairly clear in the report issued by the U.S. Trade Commission last December. It was a thick report. It had a lot of good information in it and certainly is something that I think most citizens here in Laredo should read.

More than anything, I think that we need to broadly educate many people across the United States about what the border is. We have no constituency on the border. We don't have any collective representation per se. We don't have an adequate way to express ourselves as a unified group. We need to also educate about the U.S. Customs role in the border and in our economy, and, in addition, which is something that I know you share a great interest in, the in-bond industry.

I just returned last week from Washington and was there with a group of bankers, and while the bankers didn't make comment about his particular issue, I did speak with some other public officials and individuals about you being here in Laredo today, and they expressed some skepticism about—not so much the motives, but, frankly, I don't think they understood the events at hand nor did they broadly have an understanding of what we are here in Laredo, in terms of our international trade and the impact of Maquiladoras, and also in the entire border scene.

Senator BENTSEN. Where was this group?

Mr. KECK. It was in Washington, DC, sir. From my perspective, the only viable economic tool we have here is international trade. We're inextricably tied to the border and we can't develop anything else of any identifiable value long term. I think that international trade is either our salvation or our downfall. And the twin plant industries, which are so important to our economy, are the one area that we need to expand and to increase. All of our plans for that expansion, however grandiose and idealistic, will not be realized if it's not with the combined efforts and coordination of the U.S. Customs, in terms of staffing and in terms of their professional support that they would lend to international traffic. Frankly, I think that comments like that are—and I'm at a little bit at a loss because I think I'm preaching to the choir, but that's our perspective here and I know that you've heard it more than once.

Our bank, in 1986, in late 1986, and I believe I had previously mentioned this to you and to some others, initiated an advertisement in an east coast publication, in the Wall Street Journal, in the east coast, and in the New York Times, and the advertisement was—"Why Taiwan?" It essentially was a maquiladora-oriented, in-bond industry-oriented promotional advertisement with an 800 number. The reason we initiated that was that, in the fall of last year, a major company was here in Laredo and made the comment that, had they known about the benefits, and had they been educated about the benefits of the twin plant industry 10 years ago, they would not have relocated to Taiwan.

Now, the effect of that advertisement has been phenomenal, and my concern at this point is, can we as a community, with our international bridges and with our potential cutbacks that we may see in the form of U.S. Customs, be able to accommodate the increased accelerated demand that these companies are going to place in coming to Laredo. Today, I think that it can be done, but tomorrow is another issue.

Long term, I feel like after the twin plants—or with the twin plants in the future, that our real goal would be to attain the supplier industries that would relocate in Laredo, come to Laredo and build homes in Laredo, build factories or facilities or warehouses in Laredo and sell their products directly to the major maquiladoras in Nuevo Laredo. That economic benefit to our community and to our region is much more broad long term and much more beneficial than purely a twin plant, where we have a major facility in Nuevo Laredo and the U.S. plant is really thousands of miles away.

In closing, I just want to say that I appreciate the importance you've placed on these issues, and by being here in Laredo today, in no small measure, we have been able to get the word out to a lot of other businessmen across the United States and are not sympathetic and understanding so much about Texas, and I guess we can't expect then to be, but, by the same token, they, I think, are educated a little bit more about our perspective on the border and our problems here in Laredo. Thank you.

Senator BENTSEN. Thank you, Mr. Keck. I find that it is a constant education process for some of those folks and some of the Northeastern States—I remind them that people of this border were building missions before the first brick was laid in Philadelphia. I

remind them that we have more entries through the Port of Laredo than they have at Kennedy International.

Mr. Nixon? Mr. Nixon, if you would give us your comments? Mr. Nixon is the president of the International Bank of Commerce. Go ahead.

STATEMENT OF DENNIS NIXON, PRESIDENT, INTERNATIONAL BANK OF COMMERCE, LAREDO, TX

Mr. NIXON. Senator, I handed you a brief newspaper clipping there just to crystallize some of the thoughts on the bridge problems. I think they're very illustrative of the difficulties that we have here. I believe there's one there of February 9. At the top, there's a current article showing some of the problems we have.

I think changes in certain policies and procedures by the U.S. Customs Service are necessary to the badly needed economic development in my community, Laredo, TX. Laredo is a chronically distressed community with very high unemployment rates, low average family income, and low levels of public health and educational achievement.

The economy of Laredo is dependent upon its city's location with Mexico and one rail and two vehicular bridges along the Rio Grande River. Proper management systems are required of U.S. Customs and INS for immediate expeditious flow of legal commerce and tourist across these bridges.

My suggestions, Senator, for improved operations of the bridges and the rest of the port are: One, management of the primary inspection of the two vehicular bridges should be centralized under the control of INS under a by-party agreement between INS and customs. This change would unify command and eliminate the present conflicts created by the differences in pay, unions, methodology of inspections, goals and allocations of personnel. This suggestive change will necessitate the increased staffing for INS but with the corresponding reduction of higher paid customs personnel, resulting in a net savings. Customs would continue to concentrate on secondary inspection.

Two, the pay system should be adjusted to a 40 hour work week in a 7-day week, reducing the tendency for expensive and excessive use of overtime. This change would permit increased use of inspectors by 15 to 20 percent over the same budget, according to Stephen Martin, Commissioner of U.S. Immigration for the Southern Region. However, I must point out that the present rules that are in effect are the result from out-dated legislation, 1911 for customs and 1931 and 1935 for immigration. This legislation has to be modernized.

Three, the public should be able to easily identify those inspectors that the public might question; therefore, a large, easily readable organization. And a number of badges should be worn by inspectors. When inspectors know that they're easily identifiable, they're likely to pay even greater heed in the necessity to always be courteous in correctly dealing with the public, creating a better opportunity for accountability.

Four, implementation of modern techniques for the proper use of existing resources. An example would be for the provision of an ex-

press lane for frequent use of the bridge, similar to the green line method employed by customs in many countries.

Senator, the U.S. Government policies should be designed to assist economic development with Mexico. They would benefit and the United States would benefit economically and socially. An example with what the United States can help is Mexico's assembly program. This program currently employs about 250,000 workers, 80 percent of whom are employed in or near the Mexican cities that border the United States. Unlike the 3,300 developing countries with similar activity, many positive economic effects of Mexico's assembly program flow directly across the river to provide major benefit to the United States.

Of all assembled products entering the United States under care of item 806.30 and 807, only 19 percent of the total value in 1985 consisted of U.S.-made components. In sharp contrast, 54 percent of the total value of assembled products were Mexico's as opposed to United States components. This is because sources of supply in the United States are much closer to Mexico. Therefore, because of the direct economic benefits to the southern U.S. border region, and to U.S. components suppliers, the U.S. Government policies should be used in giving special help to Mexico's assembly program.

This objective can be accomplished by, one, granting duty-free entry for parts that are assembled in Mexico within 26 kilometers of the U.S. border, or alternatively, granting them duty-free entry to assemble products that contain over 15 percent U.S. value. These policies should favor Mexico's assembly program and the resulting cost advantages would cause a shift assembly activity away from other countries and toward Mexico. Therefore, benefiting the United States.

In partnership, in the Government's support of Mexico's assembly program, the Government should establish an economic development zone for the Texas border which would provide a special incentive for locating industry through Government tax advantages, working trade programs and procurement of same.

Senator and committee members, the idea for reducing or solving the main problems that we have been discussing today would be for the U.S. Government to designate Laredo a free port, which would result in significant monetary savings for the U.S. Government. Laredo is ideally situated to be a free port. Laredo is geographically isolated and is connected to the rest of the State by only a few roads that extend for long distances through unpopulated areas. Laredo's commercial interest structure complements the free port because of its vast resources in freight handling, warehousing, distribution systems, and skill of people. Government checkpoints for the free Port of Laredo wou'd be moved from their present locations at congested bridges to these roadways outside the city where the traffic is much less. This relocation of the checkpoints in Laredo, in 1982, were representative of 8,750 vehicular inspection reduction and 8,000 pedestrians that would not have to be inspected.

Laredo, as a free port, would permit to be reduced to more efficient staffing for the Government and greatly increase the flow of traffic into and out of the city. Use of inexpensive trailers, such as those currently used by INS, would serve as offices and shelter for

inspectors that relocate at checkpoints, leaving the current structure in place. Inside the free Port of Laredo, all Federal and State labor laws would apply, as with Social Security and Federal income tax laws. One can envision the free Port of Laredo to be a private enterprise, becoming a small replica of Hong Kong, with development of extensive commercial manufacturing and tourist attraction.

The United States has long provided free port-type status for others, such as the Virgin Islands and Guam. Now is the time for Laredo. Thank you very much.

Senator BENTSEN. Tell me where you got the figure of 54 percent. I'd like to hear where yours comes from. You said 54 percent of the total value of the assembled products in Mexico as opposed to the United States components.

Mr. NIXON. This is data that's been provided through Don Baretson, here at the university.

Senator BENTSEN. Give me some of the backup for that. We're constantly being given numbers, and sometimes they're good and solid and other times they're seriously questioned. Those would be very encouraging numbers for the support of the maquilas, but I want to be able to——

Mr. NIXON. I can certainly provide that to you as follow-up information. I will get that to you. I think one of the things that is important in those numbers is the fact that we see the transportation cost occurring in assembly overseas versus here, and that's the major benefit that's gaining from having that activity occurring here in Mexico.

Senator BENTSEN. In relation to the U.S. producer?

Mr. NIXON. Yes.

Senator BENTSEN. There's no question about it, that it's not just the transportation that costs, but it's the time.

Mr. NIXON. That's correct.

Senator BENTSEN. The shortness of time here as compared to up there. All right.

Mr. Jacobs.

STATEMENT OF GARY G. JACOBS, PRESIDENT, LAREDO NATIONAL BANK, LAREDO, TX

Mr. JACOBS. Thank you. Senator, it seems to me that the Customs Service has a philosophical dilemma that it didn't have when we were a Nation of mixed surpluses, and they have that dilemma now and I think it impacts the border and it's part of what you're hearing in every border.

When we were a Nation of surpluses, they didn't really have kind of a lot of motivation for generating revenue in the U.S. Treasury. It seems to me that the primary purpose of this unenforcement and the dilemma between an enforcement and strict enforcement of every aspect of the U.S. Customs laws didn't really affect the other side, which is revenue producing, and that's what we're all concerned in Laredo. I mean, we're all concerned about drug enforcement and enforcing all the Customs laws.

If you have a Director of Customs who is primarily enforcement-oriented, it has a big impact upon economic activity along the

border. We're fortunate in Laredo today to have a District Director of Customs who came from an enforcement background but is very sensitive to the importance of flow of trade in the port. But we can see, in talking to Customs about all these issues, of staffing and keeping the lines of trucks moving, and keeping commerce moving at some acceptable level, that there's this conflict that exists. I don't have the solution for exactly how you solve this, but the more emphasis in today's society that is played on enforcement, specifically the narcotics aspect of it, the more pressure there is put on ports like Laredo, and there has to be a balance, and I think it's very important that Customs have the highest level of people in important positions in each of these ports, like we do have here, that are very sensitive to have important the revenue producing side of Customs is.

You might've heard the story years ago that we had a district director that—and your former colleague, Senator Tower, held some hearings here. This District Director was so enforced-oriented that he was off-loading carloads of Mexican bricks that had no duty associated with the commodity, comparing the actual number of bricks on the car to the manifest. So if you had an under-educated individual who prepared the manifest in the interior of Mexico and the manifest said there were 12,000 bricks on the car—as a true story—and there were, in fact, 10,500, fewer bricks, Customs has the right under the law to confiscate all the bricks and sell it and the revenue would go to the Treasury. So, you know, it paralyzed the port and had rails tied up, et cetera.

That doesn't exist today. And I don't know that it exists at any port. But there are really a lot of obsolete systems that exist. And Dennis referred to the idea of moving the check stations out on the highways, and in ports like Laredo, that's a great idea and it's easy to do. You know, if you're going across the river—if you go across the river, you stay there and—"are you going to the interior?" "No." "Where are you going?" "To the Cadillac bar," or someplace to have dinner or whatever. They keep traffic moving in the city. But you're severely penalized if you try to cross the 26 kilometer checkpoint out on the highway. So I think we do have a lot of Customs resources dedicated to looking at people involved in inter-city traffic and that might free up a lot of people without imposing any budget constraints. It's something we ought to look at.

The city of Laredo can—and the county of Webb can also, and I think other ports, can afford, as poor as we are, to help with the budget problem by paying, for example, for the expansion of the import lot locally rather than imposing on GSA to do it. One of the big bottlenecks here on freight is that the import lot, which is controlled by customs and owned by GSA, fills up with trailers every night and there's no physical area to park those trailers, and the next day, when the Maquila industry is trying to get their imports in, then there's bottlenecks. And you could look to the cities that are most enthusiastic about promoting trade to—do I stop now? To finance some of those expansions, you can get local financial institutions to buy the bonds to go through that kind of thing, to alleviate GSA and Customs of that responsibility.

One thing that I do not agree with—I agree with the concept of what Dennis was talking about, having one service service the port,

but I don't agree that it ought to be Immigration. The Customs people, in my experience, are much better trained to enforce some of the 400 laws that they're responsible for enforcing, for about 12 or 15 different agencies, and then Immigration. Most of the complaints we get in our institution, and that we hear about abuses of people at the ports, which is the airport or the bridges, are usually directed at Immigration people and not Customs people. They catch a lot of narcotics traffic not only looking at somebody, but by looking them in the eye and asking them, "Do you have anything to declare." And they're trained to see who's nervous and not nervous, and that's the primary thrust of what they do. My view is to give all the primary inspection to customs people and use the immigration people in secondary inspection. These lines on the bridge are the equivalent in times-like to reflect Laredo to economic strangulation.

Without getting into all the issues of the merits or demerits of the Maquila program, which could be debated by your colleagues—I mean, you said it yourself, that we much prefer seeing our friends in Mexico have the jobs than diverting them to Singapore or Taiwan or somewhere. But there is a very sensitive economic tradeoff, because there's still other jurisdictions where it's much, much cheaper for the Maquila industry and the auto industry, specifically, to produce. Labor is cheaper in Bangladesh and some places in the world than it is in Mexico. So if you keep millions of dollars of freight tied up in lines on the bridge—not at this port, but, for example, at El Paso, for days, sometimes the time value of that merchandise becomes a critical factor and soon overrides whatever other benefits there may have been in the form of low cost labor at the Texas-Mexican border and they'll start looking somewhere else where freight is a shift—and we've been into that.

So one of the big things that we had to sell there for a long time is that any industry in Nuevo Laredo could move a trailer quickly and that's no longer the case, partly because of the funding cuts and partly because of the logistics of how things are done. The Point being that keeping traffic moving on the bridge is very critical to job-creating activities in Laredo, TX.

Senator BENTSEN. One of the things I'm concerned about is whether this is truly going to save some money for the Government and is it really acting as a deficit reducer. When I look at the numbers, for every dollar you spend on Customs, Treasury gets $17. It's a revenue-producing agency. When I look at the situation prior to 1981, every item that came in got at least a cursory inspection, and now we're looking at a situation where, under ACS, about 2 percent of the items get an inspection, no matter how much is getting by. There's no question but that you have to move towards automation and you have to change some of the procedures and modernize them. And trying to do that effectively is not an easy job.

I'm concerned about the amount of trade across this border in the last 10 years. And I'm not talking about the Port of Laredo. I'm talking about the entire border, and the reduction in the number of personnel, if the melding together of the computer and automation has been working sufficiently well.

Mr. JACOBS. A lot of the private sector participants and municipalities on the border, I think, would pay for some of the specialized customs services that are required given the structure to do it. I can imagine that some of the big Maquila producers would be happy to pay the salary of some Customs inspectors that would free clear shipments.

Senator BENTSEN. But part of the problem is, though, that we put on some user fees last time, and what you want to be sure of is that the results are correlated to the operation of Customs, and, yet, in this request by the Administration, they made no call on this new trust fund. They may do that later. And then I look at trust funds, like the airport trust fund, where you have a user fee. You have billions of dollars that have not been used because you have airports that need modernization, and some of us think we need controllers, and a great increase in traffic. We know that some more modern technology is available to put into the hands of those controllers to do a more effective job and, yet, there is no appropriation out of that trust fund and so you worry about how that gets used, like some of us have problems with the highway trust fund.

Mr. NIXON. I think one of the areas that we need to start on is to try to modernize the systems, just like our banking. Immigration is working off of the same old procedures, and if they don't modernize, they're never going to accomplish a job because they can't throw enough people at the problem.

Senator BENTSEN. Well, they're trying to modernize and are making some headway on it. They also have some problems from the private sector. I'm probably the only chairman of the Finance Committee that has had hands on experience in business. And I know some of the problems we've had as we took on the computers and automation, and Customs going through those. Gentlemen, thank you very much. We'll take your testimony in its entirety.

Our next witness will be Mr. Jerry L. Borchin, president of the Laredo Manufacturers Association. Mr. Borchin, we're pleased to have you here.

STATEMENT OF JERRY L. BORCHIN, PRESIDENT, LAREDO MANUFACTURERS ASSOCIATION, LAREDO, TX

Mr. BORCHIN. Thank you, Senator. I'm happy to be here. I was hoping to be part of the panel; I see that I'm not. I had not really planned to mention much about personal involvement in the Maquila program or the corporation for which I work. I'd rather keep a low profile, so to speak. Seeing that we're going on the course here, and since I'm the only one here representing the Maquila section, I'll touch on that a little bit, too.

First of all, as President of the manufacturers association, I would like to say that we, as a group, find it difficult to understand reasoning on intentions or at least thoughts of cutting budgets in a revenue-producing section, or a sector that we are very closely involved with on a daily basis, specially at a time when transit times from the Nuevo Laredo facilities, as in all cases, to the U.S. facilities has at least quadrupled. This is expensive, embarrassing in many questions and many cases.

We, for one, the company I work for, this past month, went through a situation of missing a sales goal for the month due to extensive delays on return of merchandise from Mexico at the end of the month. And I think the last day of January fell on a Saturday or something. Mr. Jacobs earlier identified crossings of 2 to 3 hours have grown to 10 to 12 hours or longer, extending into the following day or through a weekend on occasions.

Senator BENTSEN. Approximately as much as 10 or 12 hours on occasions?

Mr. BORCHIN. Yes, sir. I can say, with some certainty, that this is almost the routine, rather than the exception, these days. There was a time not very long ago that all the Maquila trucks could cross through Mexican Customs and through U.S. Customs and be at the central point in the U.S. side, or in our case, at our facilities here on this side, in a matter of a few hours. And we've been given many reasons for this. There again, I'm in neither position here and not able to judge. We can only say that we feel direct results of this and it's very expensive. It's very costly and detrimental to the overall view point from both United States and Japanese manufacturers in our case. So when someone discusses budget cuts in customs, we become irate because we suffer directly. And I'm speaking strongly and that's how we feel about it.

In some other areas, in Maquila situations, I've been involved in it, myself personally, since 1969. I have some very strong feelings about it. We first became involved in it due to something you mentioned earlier, about where does a company relocate once the decision is made, and I was directly responsible for locating a plant here in 1969, or at least the preliminary steps that led to that the following year, due to cost increasing in the United States that would not allow a competitive position for a marketplace to be maintained, and I think this is the case in so many industries in the United States faced with this, and as a result of that, the choice then becomes, were do these operations locate. The border is beneficial to both sides. And I would like to say in testimony that——

Senator BENTSEN. Why don't you give me some examples of that, Mr. Borchin? I'd like some specifics, if you can. The more I can get information like that to buttress the case, the better we make it in Washington.

Mr. BORCHIN. Information regarding the bridge transit times, or crossing times?

Senator BENTSEN. Well, not only that, but I'm also talking about the benefits of the maquilas to this side of the border.

Mr. BORCHIN. Certainly. The manufacturers association, and also the corporation which I work for, have recently been involved in numerous surveys, information data providing surveys, for the University of Texas and some others. I'm not quite sure at this moment who is involved; we can provide that and we'll see that this information is sent to you.

Now, along those lines, during ths calendar year, we here expect to spend some $1.5 million in 1987 on Customs duties alone. This is the corporation I work for. In mine, I feel that we correspondently could hope for maybe not preference of treatment but at least not a step backward. Because we feel that this would be a step backward,

to cut back on Customs services or personnel, which is the same thing.

Now, touching again on the benefits to the community on both sides, the United States, et cetera, we, in the operation we have here, are directly responsible for more than 2,000 jobs in the United States at this moment, in this one location that we have. We have suppliers, we have further manufacturing——

Senator BENTSEN. You're speaking now of components that you buy within the United States? Is that the case?

Mr. BORCHIN. This is one plant in particular that does some further assembly work, finished assembly work to our products. These are suppliers——

Senator BENTSEN. This is within the United States?

Mr. BORCHIN. Within the United States, yes, sir. And millions of dollars that we spend on supplier and service-type expenses that would be lost to the Far East were this particular plant not be located here. This is corporate money that's funneled through the United States from our home office. All of this would be put in some other part of the world and I urge some of the components to this type program would—well, these finished goods will be imported from—whatever country and duties will be paid upon them at that time. This is true, but this duty is only a small amount compared to what is paid on goods, service, components, et cetera in the States.

Senator BENTSEN. You have part of your corporation in the border area on the United States side?

Mr. BORCHIN. Yes, sir. We have at this moment in excess of 100 employees who are in Texas as part of our twin plant operation and about a $2 million payroll on the United States side.

Senator BENTSEN. Well, I have met with Mr. Morita, who I think is with your company.

Mr. BORCHIN. Yes, in a big way.

Senator BENTSEN. What is his position?

Mr. BORCHIN. He is one of the originals. At this moment, he is corporate chairman and president. I think he's getting ready to move into advisory status. He's been many years with the company. I think he was one of the original founders, in 1946, I think it was. He is our world's spokesman.

Senator BENTSEN. Well, I think our last coversation was via satellite, and my end of the discussion was in New York and he was in Tokyo. I was quite interested in the fact that, about midnight, in Tokyo, he seemed quite alert.

Mr. BORCHIN. He is a very dynamic individual. And I sometimes wonder how I can schedule my days by the hour and he schedules them by the moment. He's incredible. He's difficult to keep up with.

But, anyway, these delays on the bridge are creating tremendous expenses and embarrassment for many companies located in this area.

Senator BENTSEN. What do you think about automation, according to the ACS? How is the transition working?

Mr. BORCHIN. Well, like I said earlier, Senator, I'm really not in a position to judge what is happening, although we hear many stories. For some reason, the last 2 to 3 months, the delays have in-

creased tremendously. This is part of a change in the Mexican dispatching system, and it's part of—well, what the other factors are, I'm not in a position to say. But I feel that, up until this point in time, they have certainly not been help to us.

Now we would like to pass along one thought as a form of facilitating the flow of maquila goods back into the United States. There may be some possible—some area of impovement in terms of an honor system, or in-bonding system, which we presently have in our U.S. warehouse, that would work for this type of program; that would allow maquila goods to return back through the customs facility under this bonding or honor system, or any company who would qualify and would meet the requirements that customs may specify.

Senator BENTSEN. What about the sale of up to 20 percent back into Mexico out of the maquilas? Do you find that you're able to do that and that the Mexicans let you do that?

Mr. BORCHIN. Speaking in general terms for the group that I represent, yes; speaking specifically for the company I'm with, we have not done this yet. I assume that the question is being asked because of the thought that the more we sell back into Mexico, rather than the U.S. market, the better off we are. Some of the Mexican——

Senator BENTSEN. Mexico, or Europe, or Asia.

Mr. BORCHIN. Yes, sir. Also, Mexico has some restrictions as to the product involved, and the position they have in their particular market versus production situation. Every company has to qualify for this, and depending on the type of product that you sell, you can be either allowed 20 percent or more or zero. In our particular case, we can inundate their market with one day's production. At this point in this time, it has not been convenient for them to do so. The proper pressure is made and they'll grant us some concessions there, but we haven't really been put to that either because we cannot approach the market in the United States at this moment either.

Senator BENTSEN. I discussed this particular point with the President of Mexico last year and he was telling me that he was going to do more about it and encourage more of that.

Mr. BORCHIN. Yes, sir.

Senator BENTSEN. It seems to me it also helps the consumer in Mexico and it helps curb inflation. It shows the Mexican manufacturer what can be done with capital investments and modern procedures. And I'm encouraged by the fact that there's a change in attitude by Mexico in joining GATT. We were the first nation to vote for that. We have faced the licensing agreement with Mexico, that's been highly restricted with all sorts of problems, which I don't want to go into.

Mr. BORCHIN. In the 17 or so years that I personally have been involved in the Maquila program, I've seen a very definite change in attitude, and we're very pleased with it.

Senator BENTSEN. I have also seen the change in the attitude of the Mexican businessman. I don't know whether they're reconciling themselves to it or the degree of enthusiasm, but they're accepting it. That was certainly not the attitude in the past.

Mr. BORCHIN. It was very negative 10 years ago.

Senator BENTSEN. But they're moving that way and that's quite a change.

Mr. BORCHIN. There's still some resistance here and there, but it's greatly reduced.

Senator BENTSEN. Well, Mr. Borchin, we're pleased with your testimony, and if you'd like to expand on it in your written testimony, we'd be pleased to have it.

Mr. BORCHIN. Thank you very much.

Senator BENTSEN. Our next panel will be Mr. Gilberto Villarreal, the senior vice-president of Falcon National Bank, and F.F. Zuniga, who is president of F.F. Zuniga, Inc. Gentlemen, we're pleased to have you.

STATEMENT OF F.F. ZUNIGA, PRESIDENT, F.F. ZUNIGA, INC., LAREDO, TX

Mr. ZUNIGA. First of all, Senator, I'd like to thank you for coming to Laredo. Not only that, but to welcome you here again.

Senator BENTSEN. I'm always glad to see you.

Mr. ZUNIGA. Basically, my testimony—and I'm a licensed U.S. Customhouse broker. At the present time, I'm serving as president of the local Customhouse Broker's Associations, and, as you well know, we're the ones that are more directly involved insofar as the commercial cargo is concerned. Frankly, we are very concerned that anyone would propose any cuts in the customs budget. We're very aware of the problem. I think that the only logical basis to determine whether or not a cut should be made or not is just—first of all, it's either workload against funding, and by your comments, I know that you know a lot more about specific figures than we do. But we are familiar with the Port of Laredo statistics, and when you see the staffing, compared to the workload and the revenue compared to the staffing and workload, it's incredible that anybody can even think of a proposed cut.

Now, our figures indicate exactly what you have indicated. In the Port of Laredo, TX, the workload has tripled. We've gone from 35,000 entries to 90,000 entries a year. We've gone from the number of loaded commercial vehicles, from 54,000 to 121,000, and rail cars, from 31,200 to 62,000, and we can go on and on and on. And then you look at the staffing—the big dramatic change came in 1982, with the devaluation. We've been in business for a long time, but, actually, I don't know of any broker in town that won't testify that their workload has increased from at least 200 to 300 percent.

And when you look at what's happened—let's take the import specialists, which is one of the big functions of commercial loads. In 1982, we had 6, and today we have 12, and 2 of those are on a special board team and 4 positions haven't been staffed yet. So we're right where we were and we've tripled the workload. And not only that—and you're well aware of the customs centralization, which means that every entry in the Laredo district, which goes from Laredo to Del Rio—excuse me—from Brownsville to Del Rio to San Antonio is being processed here by the same import specialist. We go into their rooms there quite often, the work areas, and there's papers stacked all around the room because you don't have enough

people to do a proper job. Entries that used to come back in 2 or 3 days are taking 3 or 4 weeks for us to get them back. And, you know, that's when you made a mistake or you didn't.

And with all due respect, customs is doing everything that it can; they just have too much work for the people they have. Most of the new additions—and you mentioned Brownsville. We've had some additions here that are mostly for drug enforcement, or some type of enforcement. We're concerned about commercial traffic, which is the basis of our commerce, the basis of international traffic.

Another good way to judge this, whether there should be a cut or not, let's just look at the duties collected. We collected $31 million in 1982, and these are fiscal 1982. In fiscal 1986, we collected in the Port of Laredo $72,800,000. Again, that's a very significant figure. So when you talk about how much you get back from money spent, I don't know whether it's spent officially or unofficially, or whatever, and you have those figures, but we're certainly bringing in the bucks.

I think Customs is a revenue-producing agency and it should be protected. We see these delays that Mr. Borchin speaks of and a lot of this is dispute to new methods. Like you mentioned, the new procedures of Mexico. But one of the basic reasons also is—and you're aware of the user's fee—that some of us—and I'm speaking personally and not as president of the association—I'd like to see reimbursable overtime reinstated, because I'd rather pay for it to get it than have a Customs Service that's not properly staffed and not get it. Although they're doing the best they can, sometimes we have to share inspectors because that's all that's available, whereas we'd be willing to pay for an inspector just to get the things across faster.

Now, many of us are going to ABI, which you're aware of, which will help, and a lot of us—well, we're already on cargo selectivity. The Cargo Selectivity Program, when it was first installed, it created some problems. I have personally kept track for the last 3 or 4 days and it sat on there about 1 hour and 20 minutes. Now, people talk about a day, and there are other factors that when you throw them all in, that it might be a day. But the selectivity program in itself is not one of the causes.

We're going into line releases, which you're also familiar with. I think Buffalo and Laredo would be the only two ports that would deal on that and the others have been eliminated. And that will help. We've got a lot of things going for us, but we need the money, we need the staff, and we certainly don't need any cuts. Basically, that's my testimony.

Senator BENTSEN. On the user's fee, one of the other things that was proosed at the time, and I opposed it and we were able to defeat it, was a fee on every person that crossed the bridge.

Mr. ZUNIGA. There was also some talk——

Senator BENTSEN. My mail count was high enough without having to answer to that one.

Mr. ZUNIGA. Senator, if I may. We feel—and I'll put it in my written testimony—that based on the estimated value of imports—and I arrived at that figure by using a 4½ percent average, considering that many of the products come in duty free and some of them come under GSP, and there's a lot of State reductions which

you're also familiar with, and based on those figures and the number of commercial vehicles and railroads across, we're raising 5 million dollars worth of user's fees here in Laredo, which will go to fiscal 1986, and we don't believe that should go to any trust. We believe that it should come back to Laredo and give us better facilities and better staffing.

Senator BENTSEN. You know, when we looked at this and look at this budget, I didn't see any call on that fund, that we looked on as a user's fee. It's difficult to understand what OMB has in mind and what the administration has in mind.

Mr. ZUNIGA. But where is the money coming from for all this overtime that they're not getting reimbursed for now? I mean, we're using people here till midnight every day. Because, again, because of the change in the Mexican——

Senator BENTSEN. Well, there's no direct correlation to the user's fee, from what we've seen thus far on the appropriation request. It's a general revenue-trust situation.

Mr. ZUNIGA. I have no figures to substantiate this, but I know that overtime is free, and there's a lot of people in it. And Customs used to work from 8 to 5, and now Customs is open till midnight. What I'm real surprised about is that they could—I don't see how they can stay in budget for starters, or how anybody could propose to cut their budget. Because if we're going to eliminate these delays, and we are working very feverishly at it, and we have the cooperation of Mexican brokers and Mexican customs, we certainly can't do it with reduced staffs or reduced budgets. Mexico is a good neighbor and the third largest trading partner, and I can't see why we can't get good service on this border or how anybody would think of a cut, frankly.

Senator BENTSEN. Mr. Villarreal.

STATEMENT OF GILBERTO VILLARREAL, SENIOR VICE PRESIDENT, FALCON NATIONAL BANK, LAREDO, TX

Mr. VILLARREAL. Thank you, Senator, for the opportunity to talk to you today. When I was first approached for this panel, I though to myself, well, who can I ask or where do I find out. We have a small community bank. I talked to our small depositors and small businessmen that we deal with, primarily in international trade, and I told them, "He's coming down here and he wants to know, and I want to know, what you all think," and what I heard, Senator, their most important thing is that they want to work to earn a living. Laredo has had the peso devaluation, and we've suffered from the oil and gas and energy crisis, but one of the bright spots has been the international trade. And Mr. Zuniga alluded to some of their business having increased 200 to 300 percent.

Now, a lot of people are employed by these customs brokers, by the warehouse companies, by the national transportation companies, and these are the people I have talked to, people that concern me. They want to make sure that they can work. They don't want nothing free; they want to be able to work. We need—the Government needs to make sure that the flow of traffic on the bridge continues. International trade is a big part of our economy and that it continue to flow. Laredo—not all the problems can be solved by

U.S. Customs, but the problems that we can solve won't do us any good unless we have the cooperation and unless U.S. Customs is staffed to handle this increased flow, and, basically, that's what I wanted to come here and talk to you about. It's very important to our economy and it's very important to the individual that works, that labors every day and has to go to work. We need to keep Customs staffed and we need to keep an orderly flow of traffic on the bridge. We need to increase it and not decrease it.

Senator BENTSEN. Can you get a feel for what the trade is percentagewise, in your stores, through the banks, by the flow of pesos? Or does that not go through the banks anymore?

Mr. VILLARREAL. The flow of pesos?

Senator BENTSEN. Yes.

Mr. VILLARREAL. Our bank doesn't handle it. Some of the larger banks do. We're a small bank and we don't deal with pesos. I suppose some of the other people here can answer that. Primarily, again, we're a community bank and we deal with small depositors and small businessmen. A lot of them want to increase, a lot of them want to expand their businesses and provide more jobs, and a lot of people want to keep their jobs, and a lot of them want to get into that sector.

Senator BENTSEN. Thank you very much, gentlemen. I appreciate your comments on it.

Mr. ZUNIGA. Thank you.

Mr. VILLARREAL. Thank you.

Senator BENTSEN. Our next panel will be Dr. Khosrow—I can't pronounce——

Professor FATEMI. Fatemi.

Senator BENTSEN. Mr. Fatemi, professor of international trade at Laredo State University and the editor of the International Trade Journal, on behalf of Dr. Pacheco, the president of Laredo State University, and Ms. Linda L. Howland, acting director of the Laredo Development Foundation.

May I apologize for asking for the pronunciation of your name. You can imagine what they do to Bentsen sometime.

STATEMENT OF DR. KHOSROW FATEMI, PROFESSOR, LAREDO STATE UNIVERSITY, LAREDO, TX

Professor FATEMI. Thank you. You did an excellent job of pronouncing my first name correctly; that's more than I get from most people.

Senator BENTSEN. Would you proceed, sir?

Professor FATEMI. This testimony, Mr. Chairman, is based on two premises. One is that there's an appreciation on the part of the community for an economic plight of the border region in general and Laredo in particular, and, second, that the committee's final decision will not be based exclusively on cost effectiveness and will take into account the impact of any recommendation on the economic development of the border. Both of these premises are elaborated upon in my original testimony, along with other recommendations.

The specific proposal which I would like to comment on and elaborate on is one which has already been suggested this after-

noon, and that is, the issue of diversification of Laredo's economy through the creation of a free port, as distinguished from a free trade zone which already exists.

The logistics of this proposal are very simple and may even be cost effective. Under this proposal, Customs inspections points would be moved from their present location on the border to about 10 miles outside the city, thus creating the free port of about 100 square miles. The goods brought into this area from outside the United States would not be subject to tariffs, quotas, or any other restrictions. All such controls would be exercised when these products are taken out of the free port area.

Additionally, all the goods brought into this area from other parts of the United States would be treated as transitory and again not subject to any restrictions. If they are shipped outside the United States, they become national exports and only then become subject to prevailing export regulations. If, on the other hand, they are further processed and/or shipped back into the United States, they would be free of any quantitative limitations or tariffs.

The advantages of this proposal for the border region are numerous. First, this action would create a very large duty free retail area similar to those found in most international ports. This would result in a dramatic and indigenous increase in a retail and wholesale trade in the area.

Second, by definition, this free port would also incorporate within its confines a free trade zone and many production sharing or maquiladora operations, thus becoming a major industrial center, capitalizing not only on the inexpensive Mexican labor and abundant U.S. capital and technology but also on international trade from many other countries.

Third, a very desirable outcome of this free port would be diversification of Laredo's economy. Presently, many border communities like Laredo are completely dependent on a single economic activity for their survival, and, for Laredo, it's international trade. Having the free ports would allow and indeed encourage the broadening of the city's economic phase and would give it functional flexibility. Significantly because of the simultaneous expanding international trade and industrialization, this type of economic restructuring would not be accompanied by any short-term structural economic disturbances which usually characterize such attempts.

Fourth, establishment of a free port in Laredo would reduce the region's chronic unemployment problem by creating new and diversified and diversed employment opportunities. Overall, the net social benefits of the proposed free port to the city and its neigboring area would be quite substantial.

Fifth, a free port would alleviate the region's income problems. In the cast of Laredo, it would bring the city out of the ranks of developing countries and place it more in line with the rest of the country. Presently, Laredo's per capita GNP is about half of the national average and its per capita disposable income ranks somewhere between those of Venezuela and Yugoslavia.

Finally, a free port would reduce the city's and indeed the region's vulnerability for future economic disturbances and would diminish the serverity of any such crisis. The result from diversification would reduce problems like those of recent years to managea-

ble levels and would protect the region from future economic disasters. Thank you very much, Mr. Chairman, for the opportunity.

Senator BENTSEN. Tell me, what would you envision on the other side, in Mexico? Is it something comparable or not?

Professor FATEMI. No. Initially, sir, it would not require anything comparable, even though, as we stated earlier, there are certain provisions already in existence on the other side on much of the control, on the Mexican side. Essentially, what we are proposing is that something similar or maybe more comprehensive than what already exists be created on this side of the border.

Senator BENTSEN. Could you give me some examples of such free ports, apart from an island or Hong Kong or that type of thing?

Professor FATEMI. As far as I know, presently, the only existing one in the format——

Senator BENTSEN. Which encompasses a city?

Professor FATEMI. Other than Hong Kong and Singapore? No.

Senator BENTSEN. Would you envision problems of control?

Professor FATEMI. No. In fact, control would be easier than it is now, because much of the problem that the Customs Service has right now is on the bridge and much of the traffic comes only to Laredo, and, in that case, that traffic will not be controlled at all if it comes into a free port and it would release customs agents to work at checkpoints.

Senator BENTSEN. How many checkpoints do you have now going into Mexico?

Professor FATEMI. The two bridges.

Senator BENTSEN. No, no. I mean at the 26 kilometers.

Professor FATEMI. I don't know.

Senator BENTSEN. How many different accesses?

SPECTATOR. Each road has one. There's three highways out of Nuevo Laredo and I think we would require four.

SPECTATOR. We basically have that placed out with I.N.S., with a checkpoint going out of the city of Laredo.

Senator BENTSEN. Well, that's an interesting proposal. There's been a number of proposals about having free trade zones on each side extending along the border. I've asked for the reaction of Mexican officials concerning that and I've had very strong negative reaction to that from the officials that I have talked to on the Mexican side. Not what you're talking about, but a free trade zone for several miles inland on each side.

Professor FATEMI. The trade points are very limited. One specific advantage of it for Laredo is that it will expand international trade without causing any short term problems.

Senator BENTSEN. Ms. Howland, would you proceed, please?

STATEMENT OF LINDA HOWLAND, ACTING DIRECTOR, LAREDO DEVELOPMENT FOUNDATION, LAREDO, TX

Ms. HOWLAND. Thank you. Good afternoon, Senator Bentsen, and welcome to Laredo. The Laredo Development Foundation, not being directly involved in the brokerage of goods or customs procedures, will not concentrate on the efficiency or management of current procedures; instead, we will emphasize the reasons why the

role of the United States Customs Service is essential to continued economic development of Laredo.

The ultimate goal of the Laredo Development Foundation is to make Laredo more economically self-sufficient by expanding our industrial base and increasing our tax base. Everything we do is designed to help create jobs in Laredo, TX, including using the world-wide interest in twin plant or Maquiladoras to the best possible advantage. We must create more jobs in the manufacturing sector if Laredo is to survive, let alone grow.

The increasing interest in Maquiladoras, coupled with the flourishing trade industry in Laredo, emphasis the importances of the U.S. Customs Service as the vital link in the international trade activity that takes place between the economies of Laredo and Nuevo Laredo. Prompt customs clearing of commodities has the direct impact of fostering commercial transactions which positively boost economic development in both nations.

Laredo is the largest inland port in the United States. It leads all Texas-Mexico border ports in shipments of goods into Mexico by truck, rail, and air. Total tolls collected for 1986 contributed over $5,499,000 for the Laredo Bridge System. Also, it's a popular tourist crossing. Entries into the interior of Mexico from Laredo represent half of the tourist entries at all other border crossings.

Among the major developments that have played a vital role in the industrialization and diversification of the Mexican economy, particularly along the U.S.-Mexico border, is the Maquiladora or in-bond assembly program. The Maquiladora has become a major source of foreign investment capital in Mexico and has contributed significantly to the industrialization of Mexico and south Texas' depressed border region.

Senator Bentsen, you wanted a bit more specific information on the reciprocal nature of Maquiladora to the two cities. The Laredo Development Foundation recently—or at this point in time is conducting a survey of the Maquiladora in Nuevo Laredo and their economic impact to the city of Laredo, TX, and the United States as a whole. At this point, I have information concerning the economic impact of five Maquiladoras, taking into consideration the fact that there are 26 currently operating in Nuevo Laredo at this time, but we don't have all the surveys in yet. We took five of those and compiled the figures. These figures are as of December 1986.

Now, taking into consideration that there are approximately 5,500 people employed in Nuevo Laredo in Maquiladora. These are how the figures go. Total number of employees for these five Maquiladoras is 1,661. Total payroll in Nuevo Laredo is $1,480,000. Annual payroll for Laredo, TX employees is $3,140,000. Cash flow through Laredo banks is $25,300,000.

Senator BENTSEN. Wait a minute. Let me get that again. You say the annual payroll for Laredo——

Ms. HOWLAND. For Laredo, TX, employees.

Senator BENTSEN. In Laredo?

Ms. HOWLAND. Yes, sir.

Senator BENTSEN. And that's attributed to the maquilas?

Ms. HOWLAND. Yes, sir.

Senator BENTSEN. Directly correlated?

Ms. HOWLAND. Yes, sir.

Senator BENTSEN. OK.

Ms. HOWLAND. OK. Expenditures for transportation is $1,597,000. The number of U.S. suppliers supplying the plants in Nuevo Laredo, supplying 5 plants in Nuevo Laredo, 530. Total amount spent on U.S. supplies by 5 Maquiladoras is $31 million.

Visitors to Maquiladora plants, such as corporate executives that come to visit the plant from time, number 450,000 throughout—I'm sorry—400 throughout the year. We can go into the multiplier effects of all these, but I won't because of the time. Besides zony, which has a substantial investment in our city, Delrado, a General Motors Plant in Nuevo Laredo, spent a total of $5.2 million for purchases of goods and services in 1986. Approximately $3.5 million of that total was spent in Laredo, TX, alone in 1986.

The impact of the expanding industry may dramatically increase Laredo's economic phase. The economic spillover from the addition of a plant or factory benefits not only its employees and their families but the entire community as well. The flow of payroll dollars into local cash registers and bank accounts result in the gain to the whole economy. Increases in population, school enrollment, and overall growth reflects the economic expansion generated by the new businesses, in particular, increased housing and new construction, which starts expenditures on cars, clothing, and groceries, and bound to increase resources for the city and county government. Truly, the Rio Grande eyes the border cities of Mexico and the United States together. What is good for one is good for the other. And, as is now the case, when one city is cut, both cities bleed.

Laredo has sustained severe reductions in its force of U.S. Customs officers assigned to the Port of Laredo. The reduction of these officers has materially affected the efficient operation of the port in the handling of the massive amount of daily truck traffic. It should be pointed out that, in Laredo, the largest inland port city, but, otherwise, economically depressed, the U.S. Customs Service, historically, is a profit seeking agency for the Federal Government. Laredo's contribution is substantial.

It is hoped that legislators will secure equitable treatment in proportion to the revenues generated by the Port of Laredo. While Laredo is mindful of what the future promises, it is well aware of what has shaped it. The industry of international trade, that has established itself in the city, has continued to make a commitment to the community and to the economy. Thank you.

Senator BENTSEN. Now, those are the kind of numbers I needed. Now, let me understand this. In going to five Maquilas——

Ms. HOWLAND. Yes, sir.

Senator BENTSEN [continuing]. That about 30 percent of——

Ms. HOWLAND. Of total employment.

Senator BENTSEN. Total employment. And, of that, then, on our side, in Laredo, directly tied to those Maquilas——

Ms. HOWLAND. These are direct numbers.

Senator BENTSEN. You have 1,661?

Ms. HOWLAND. Yes, sir. No, no, no. Those are in Nuevo Laredo.

Senator BENTSEN. Oh, I see.

Ms. HOWLAND. Senator Bentsen, the total employment of Maquiladoras, all Maquiladoras here in Laredo, TX, at this point, currently numbers approximately 300.

Senator BENTSEN. 300?

Ms. HOWLAND. Yes, sir.

Senator BENTSEN. I see. But that's all that's involved in the other side?

Ms. HOWLAND. Yes, sir.

Senator BENTSEN. Let me get back to this. Then the payroll to the 300 is the $3 million——

Ms. HOWLAND. No. Those are payroll for Laredo, Texas employees.

Senator BENTSEN. That's what I said.

Ms. HOWLAND. Yes, sir.

Senator BENTSEN. For Laredo, TX.

Ms. HOWLAND. Yes, sir.

Senator BENTSEN. And you will furnish a study for the rest?

Ms. HOWLAND. Oh, yes.

Senator BENTSEN. Then maybe I can get a better handle on it.

Ms. HOWLAND. I will add, Senator Bentsen, that this study is being conducted all along the Texas border at this time.

Senator BENTSEN. I'm asking for it every place I can get it, so we can correlate those numbers, check them, and put them together and try to show the validity of those numbers as we get into any possible debate on this.

I don't see the Maquilas seriously threatened at this point, but I want to avoid that if we can. And that means that we must have Mexico understand and we must have these plants understand that the objective is to help both countries along the border, and that unless you keep that objective in mind, at some point in the future, they could be threatened. Your proposal for a free port—I really haven't given that any study at all, but I'll be happy to look at it.

Ms. HOWLAND. Yes, sir.

Senator BENTSEN. There are some major ramifications. But thank you very much.

Ms. HOWLAND. Thank you.

Senator BENTSEN. Our next witness, who has been heavily involved in Austin in the State senate, and who is familiar with the legislation going there, also has a very deep concern about what's happening along this border in representing this constituency. He's a very distinguished friend of mine. He is Senator Hector Uribe. We're happy to have you.

STATEMENT OF STATE SENATOR HECTOR URIBE

Senator URIBE. Thank you very much for giving me the opportunity to testify here in Laredo. Laredo is truly the proper place to be to testify. My father was born in San Ignacio and literally grew up here in Laredo, and so I feel that Laredo is my second home. Laredoans have been very gracious. And they respect me and they consider me one of their own. I want to thank Senator Zaffirini also for extending the courtesy to me to come in and testify.

Mr. Chairman, I am very happy that you are here to take testimony on proposed administration budget cuts. I think it's excellent that you have come to the border to gather information and testimony and evidence on how the proposed budget cuts will impact on the border-to-border economy and border growth.

One of the toughest jobs that I have as a State senator, Mr. Chairman, is convincing my colleagues that our problems along the border are different, that they're unique. I have colleagues in the Senate who consider themselves border Senators because their districts border the States of Louisiana, Oklahoma, and New Mexico.

Senator BENTSEN. You're talking my language.

Senator URIBE. I served in the House from 1979 through 1981, and from 1981 to the present, and I am frustrated on a day-to-day basis at my inability to communicate with them clearly about the international character of the Texas American-Mexican border. My colleagues are faced, obviously, with a very difficult situation. Their particular districts do not border an emerging third world country, as my district does. Our border area is literally at the crossroads between that very rapidly growing country and probably the most sophisticated and most advanced technological society in the world, and that's the United States of America.

I am just beginning now, I think, to convince some of my colleagues that because the border is a unique area, it has unique problems and, therefore, it needs solutions, and those solutions, in my opinion, require involvement of the Federal Government.

Also, I'm beginning to get the message across. Sometimes Federal policy, well-intentioned as it might be, sometimes winds up exacerbating the problem along the border rather than alleviating some of the problems. I'm speaking primarily of the problem of economic under-achievement, unemployment, low per-capita income, and all the incidental problems that arise from a situation where society produces too few jobs for too many people.

Now, one example of Federal policy exacerbating the problem was the Reagan administration's attempts to deal with the problems of narcotics in Mexico. We had a drug enforcement agent who was killed in Mexico, Guadalajara, and, or course, all of us along the border regretted the death of that law enforcement official who was working for our country in an effort to stop the flow of illegal contraband of narcotics into the United States. But the Reagan administration's response was to literally stop traffic from border community to border community.

Our bordern communities, for many, many years, have coexisted in a mutually and beneficial relationship with one another. We in Brownsville are as dependent on Mexican trade, Mexican commerce, Mexican patrons and customers, as they are on Texans visiting Matamoros restaurants, Matamoros shops, and so on and so on.

This administration professes to be a supporter of free trade, and, in my opinion, if this administration is a supporter of free trade, it should not be creating further barriers to free trade. I think that the problem is going to be created by reduced appropriations to Customs and it's certainly going to exacerbate problems.

The State has begun to recognize that the border area's potential has not been fully developed, and, in the last session, Governor White, Lt. Governor Hobby, and Speaker Lewis appointed a task force committee and the State is considering a Border Development Commission. The task force had many recommendations, but I'm going to be very brief 'cause I know that the people from here, in Laredo, want to testify. One of the recommendations of the Border

Development Task Force is that we do everything to promote free trade between the two countries, and I think that this administration's recommendation, that we cut appropriations to customs, will work against our efforts and our efforts to improve the economy along the border.

Thank you very much, Mr. Chairman. I appreciate the opportunity to testify before you today. If you have any questions that you want answered——

Senator BENTSEN. Senator, we understand your schedule and we appreciate your efforts to be here. I share your concern about what's happening on this border. We have had hearings, as you know, in Brownsville, and then later on in Washington. But we never get close to the hands on experience that relate to the problem. I couldn't help but empathize with you as you talked about trying to explain the border to some of your colleagues and having them talk to you about Texarkana, which is part of our State.

But it's absolutely critical that we have a commercial trade across this border. Obviously, it's a great country. And that's the purpose of these hearings, to see what we can do to help them.

Senator URIBE. Thank you for letting me testify.

Senator BENTSEN. Thank you for taking time from your schedule.

I see that the distinguished mayor of Laredo is here. Mayor, we're delighted to have any comments that you might have.

STATEMENT OF HON. ALDO TATANGELO, MAYOR, LAREDO, TX

Mayor TATANGELO. Thank you. Senator Lloyd Bentsen, Mr. Chairman, it's a pleasure to have you here in Laredo. It's always a pleasure to have you.

Senator BENTSEN. Thank you, sir.

Mayor TATANGELO. And I'm glad that you're on our side and that you know our problem. I'm going to be very brief, because I'm usually the last one.

Senator BENTSEN. I want to say to you that I don't know of any city I'd rather enjoy my birthday in than here.

Mayor TATANGELO. We're going to extend the invitation to the George Washington's birthday, on the 21st. I know you'll be visiting someone else, but don't forget to visit me at the reception at my house at 2:30. I'll be looking forward to seeing you, sir.

Senator BENTSEN. All right.

Mayor TATANGELO. I just want to make a few remarks and it strictly has to do with Maquiladora and its role. I'll be as brief as possible. First our relationship with Mexico. Mexico is our friend. Mexico is our neighbor. We have a friendly neighbor and I have watched the Maquiladoras. I've been in Laredo since 1963 and I probably came over being the first Maquiladora, in a small way, in Mexico City, and I always believed, and I believe more strongly now, that the future, the economic stability of Mexico, lies in the Maquiladora. Why? Because, No. 1, it is foreign investments that have confidence in Mexico and know that they could manufacture and compete with the rest of the world, and then ship out of the border and ship to 20 percent to Mexico, which will help the Mexican consumer to buy merchandise at a lower price, and good merchandise.

Now, this would be the beginning of Mexico being industrialized. Because they find it very difficult what to do with their money. But here are foreigners that will come, won't worry about the 51, 49 percentage of ownership. And it has proven, especially in cities that started way back, and that is, cities like El Paso, with Ciudad Juarez, where they are enjoying 18 percent manufacturing, in El Paso, and the other cities on the border that are very important to the United States, because we are part of the United States, we're only enjoying 5 or 6 percent, with the exception of McAllen, with 14 percent.

So that means that there is a definite tie between Mexico and the border cities, which is part of the United States. The stability, the economic stability—because we, on the border, could become industrial cities by being supportive industries to the maquiladoras, instead of the manufactured goods coming in from—let me mention some States, 'cause I'm familiar with them, 'cause I come from the northeast. From Rhode Island, from Pennsylvania, other areas of Detroit. They can be manufactured on the border. We know the situation on the border.

And you know very well, honorable Senator, more about the border, more than anybody, more than I do; you've lived there longer. You know that the border must be industrialized. So it is of our interest, as United States citizens, and part of the United States, that this border become a strong border, not that it depends on the Federal Government for welfare, and the only way we're going to do that is to industrialize. So how do we industrialize? Mexico already has the factories and there are more that are going to go to Mexico because they see that the Mexican Government now realizes that it's the future of their country. And they have endorsed it, which they hadn't done it in the past.

So here we have an opportunity to help a friend and also to help the border. The border is not going to do it any other way unless it's able to become an economic industrial area. We will have supplies here. We'll have manufacturers that will supply and it will be the nucleus of a manufacturing area.

I can go on and on, and I know you've given me more time than I was permitted, but let's remember we have a friend and you help friends, and it is a neighbor, and a good neighbor. So let's keep it that way.

Now, I know that I have many friends up north, union people, manufacturers, that believe, and it's a long belief, that Mexico has taken jobs away from the northeast. It has not taken the jobs. If there were no Mexico, there would be a bigger Japan, a bigger Taiwan, a bigger Korea, a bigger Malaysia, and India, and then there would be no jobs up north, because I've seen it happen.

Now, here we are participating. We are working together. We are not saying we want everything; that's not the idea of a twin plant. The twin plant is one that supports the other. And if the legislators and the union people, and the workers up north know that, they would have a different outlook on what maquiladoras is. It's not a big demon. It's somebody there to help the United States.

And let me close with this. Mexico is a friendly country. Just think how many millions it would cost us to protect this 1,200 mile border if it was a hostile country. So let's not lose something good

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that we've got. Let's work as good neighbors. Let us do to Mexico what we did to the countries in Europe, even our enemies, after World War II through the Marshall plan. And I'm not talking about a Marshall plan. Just think what we did to them and they were not our allies. They were our enemies, and we lost millions of people in the struggle for freedom. Here we have a chance to help our neighbor and our friends and we are taking a role of being their enemies. Let's not do that.

Senator, I'm so glad you came.

Senator BENTSEN. It's nice to be here. And, once again, you've shown your enthusiasm for this great city.

Mayor TATANGELO. Thank you.

Senator BENTSEN. With that, we close.

[Whereupon the hearing was concluded.]

[By direction of the chairman, the following prepared statements and communications were made a part of the hearing record:]

City of McAllen

OTHAL E. BRAND, Mayor
LEO MONTALVO, Mayor Pro Tem
CHARLES WILSON, Commissioner
ARMANDO GARCIA, Commissioner
JOE ALEMAN, Commissioner

JOSE A. ESCAMILLA, City Manager
MISS NATIVIDAD (TIVA) SANCHEZ, City Secretary

February 10, 1987

Mr. Sam Vale, President
Texas-Mexico Bridge Owners Association
P.O. Drawer 156
Rio Grande City, TX 78582-0156

Dear Mr. Vale:

The City of McAllen is studying the McAllen-Hidalgo-Reynosa International Bridge, facilities and crossings. Following is a summary of information from our research.

The City of McAllen has proposed the construction of a new four-lane bridge expansion which will essentially double the traffic capacity for this crossing. The State of Texas and the City have invested approximately $18 million in improvements to the street and highway approaches to the Bridge. In addition to increased capacity, the proposed new span will cure the existing problem of pedestrians having to cross lanes of traffic on the U.S. side to reach the administration building. The City recently awarded the construction contract for the new $2 million span, and work began in December.

With an investment of $4.5 million, the City completed a new inspection facility in December of 1982. GSA leases the facility which was planned to be compatible with the proposed bridge expansion and can accommodate the anticipated increase in traffic.

According to an existing agreement between the U.S. Customs Service and the U.S. Immigration Service, primary inspections are to be shared equally (50/50) by staff of Customs and Immigration. The Customs staff at the Hidalgo Bridge has increased from 20 inspectors in 1980 to 35 inspectors and 16 supervisors in January, 1987. The Immigration and Naturalization Service added 19 inspectors for a total of 38 inspectors and six supervisors in January of 1987. Customs staff can serve five stations for private vehicles and pedestrians while the Immigration Service usually staffs one and sometimes two stations. Because of the agreement, Customs Officers cannot add personnel and "take over" manning the booths assigned to immigration by the 50/50 split.

According to the U.S. Customs Port Director, the capacity of the existing facility is 12 lanes. Currently only 8 are operational.

A prime concern for expansion of Bridge facilities is the need to reduce congestion and crossing time. The flow of goods and services across the Texas-Mexico Border is hindered by inadequate International Bridge services. Foreign trade is not just a concept along the Border. It is an every day occurrence. The production sharing program (Maquiladoras) in operation along the Border represents direct employment and indirect jobs created on both sides of the River. Thirty plants located in Reynosa alone represent 20,000 jobs, indirectly creating over 4,500 jobs in the McAllen area. A recent study by Pan American University has shown that 30% of those earnings return for purchases of U.S. goods and services. The impact of this dollar return is evidenced in the devastating effects of peso devaluations on border retail and investments, as shown in the enclosed charts.

Everything and everyone crossing must use the same Bridge; raw materials, components, agricultural products, workers, shoppers, and tourists. The enclosed chart indicates crossing activity since 1982. Research has shown that while primary inspections can average 20 seconds, secondary inspections may take several hours. The Bridge has been full an average of four hours per day. With approximately 800 vehicles per hour waiting in line, the cost in wasted fuel alone is more than $1 million per year. There are other costs in missed connections for freight carriers and general frustration and stress caused by breakdowns and waiting.

The facilities available and planned at this port of entry demonstrate the commitment of the City of McAllen to provide for the improvement of economic conditions and enhance international relations. Operation of the McAllen-Hidalgo-Reynosa International Bridge generated over $26 million in U.S. Customs Duties in 1984. Current figures are unavailable but expected to be greater. As commerce increases, many businesses find it advantageous to establish operations in the McAllen area with access to the Bridge. The McAllen Foreign Trade Zone No. 12 (with its ties to the Maquiladoras), has contributed more than $2 billion toward reduction of the U.S. balance of trade deficit.

Clearly the McAllen-Hidalgo-Reynosa International Bridge is a revenue producing operation. The improvements planned and an appropriate level of staffing (no reductions) will assure that goods and services move uninterrupted across the International Border.

Sincerely,

CITY OF McALLEN

Jose Escamilla

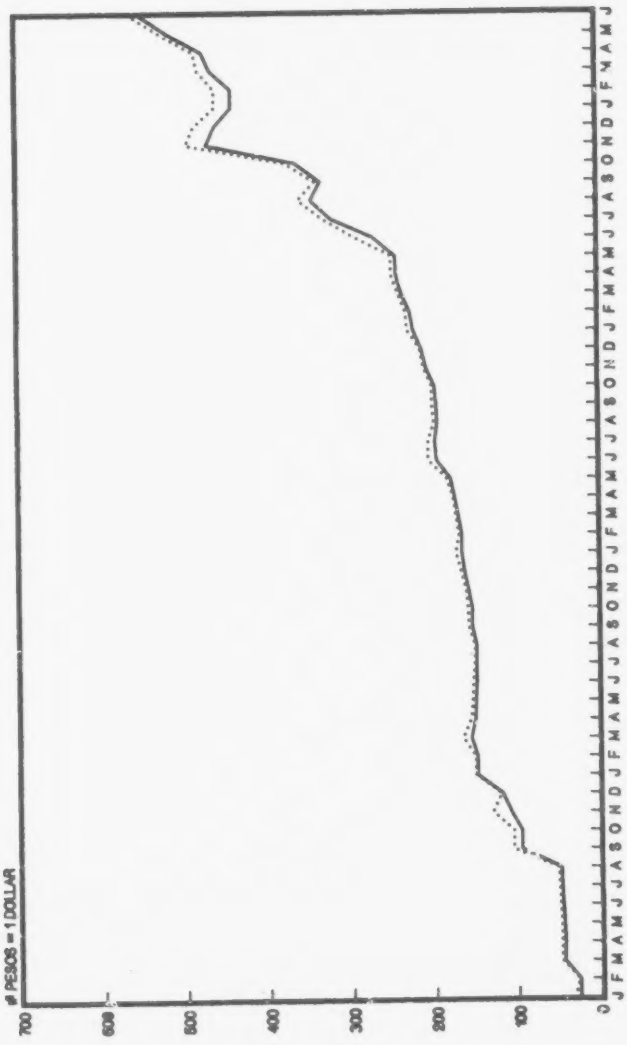
Jose A. Escamilla
City Manager

JR:jp
Enclosures

PESO EXCHANGE RATES, 1982–1986

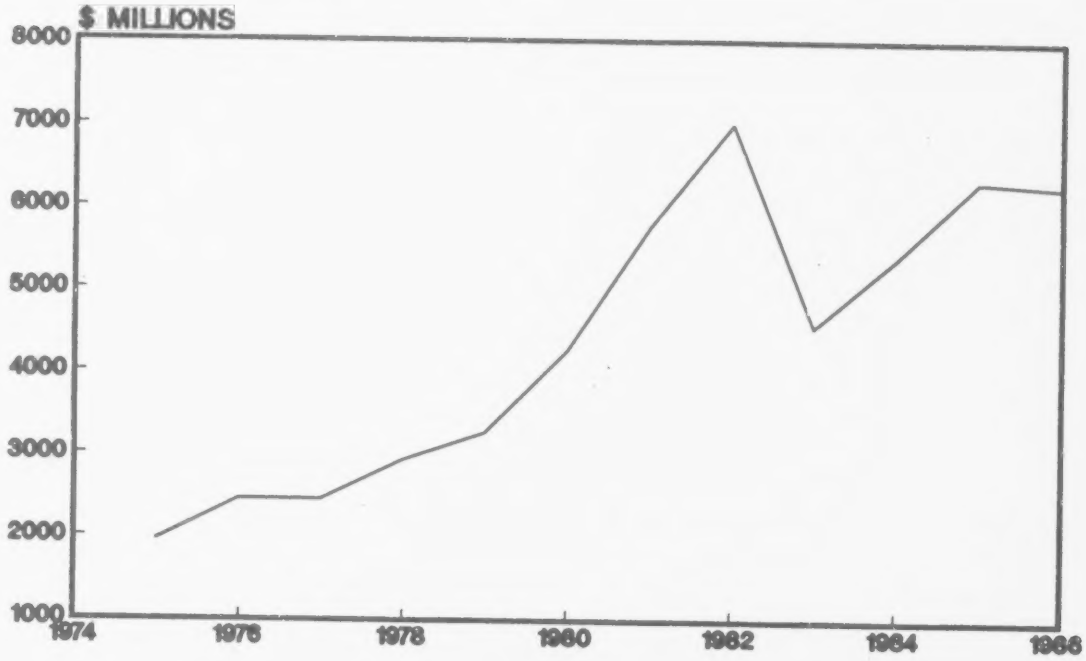
MONTHLY

SELL ——— BUY .....



SOURCE: McALLEN STATE BANK

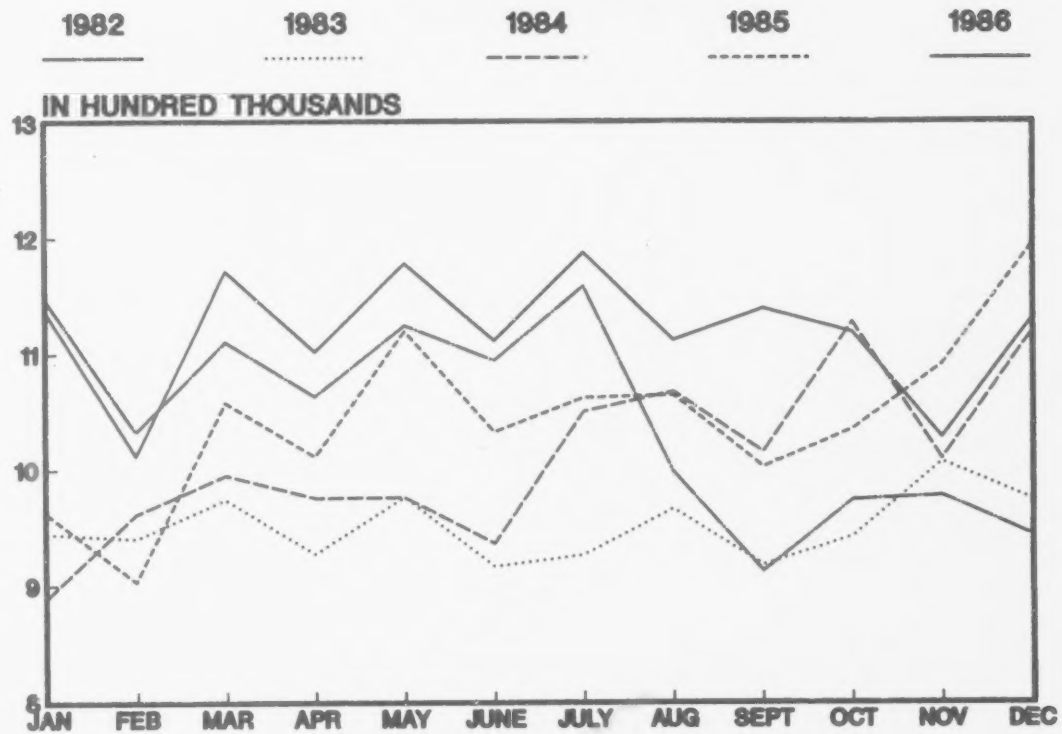
CITY SALES TAX RECEIPTS
1975 - 1986



SOURCE: STATE COMPTROLLER'S OFFICE

BRIDGE CROSSINGS

NUMBER OF PERSONS



SOURCE: U.S. CUSTOMS SERVICE

Testimony of Al Cisneros, General Manager and Port Director for the Port of Brownsville, Texas, before the U.S. Senate Finance Committee, on Wednesday, February 11, 1987.

WHY THE CUTTING BACK OF THE LEVEL OF U.S. CUSTOMS SERVICES AND INSPECTION WOULD BE VERY DETRIMENTAL TO THE ECONOMIC RECOVERY OF THE BROWNSVILLE-MATAMOROS AREA

Senator Lloyd Bentsen and other Members of the Hearing Committee:

Thank you for giving me the opportunity to express my concerns regarding the budget cutting proposals and management changes being proposed by the Reagan Administration for the U.S. Customs Service. I am addressing your committee with the perspective of an individual working for a local transportation governmental authority which is presently planning the construction of a new international bridge just east of Brownsville and Matamoros, linking the Port of Brownsville with a new major industrial park on the Mexican side of the river which is presently being planned to respond to the need for a better transportation system, the economic recovery, and industrial growth needs of the area.

Last month I addressed the 66th Annual Meeting of the Transportation Research Board in Washington, DC, on the subject of the U.S. Perspective on Transborder Transportation Issues Between Mexico and the United States. Two of the major issues which I addressed are directly related to the purpose of this hearing today.

First, is the need for additional infrastructure which will help stimulate our economic recovery. Without question, the greatest need we have at all our border cities is more international bridges. Today, you will find extreme traffic congestion in our twin cities which causes frustrating delays for passenger vehicles and commercial trucks needing to cross the border. For example, at Brownsville-Matamoros where we have a combined population of 500,000, we only have two bridges. Transportation studies recently made show that on the average, it takes from a minimum of 30 minutes to a maximum of one and one-half hours to cross a bridge. Naturally, the fact that we must have governmental inspection to

assure the compliance of our laws dealing with U.S. Customs, Immigration, Department of Agriculture, and the Public Health Service is the major reason for these long delays. We need more bridges to decentralize this process to improve the efficiency and safety of crossing the border and still be able to cope more effectively with immigration pressures and drug interdiction.

I often compare the Brownsville-Matamoros area with Austin, Texas, which has a similar size population, with the Colorado River running through the center of the city. The City of Austin has 11 bridges and two railroad bridges, so that there can be a normal flow of traffic from one side of the river to the other for people driving to work, to shop, to schools and for recreational purposes. Our two cities have a faster rate of population growth than Austin. We must work hard and fast to catch up and prepare for our future joint economic development.

Having visited the other Texas border twin cities, I have found that the problems there are just as bad, or even worse. I understand that delays at El Paso/Juarez, where they have a joint population of two million people and only five bridges, that their crossing delays last from one to two hours.

The second major issue I addressed dealt with Government Services and Regulations. One of the principal reasons for having so few bridges on the Rio Grande has been the inability and reluctance of both the U.S. and Mexican Governments to establish more custom houses and inspection stations. Due to federal budgetary limitations, there have also been very limited numbers of personnel assigned to these few international crossings.

Due to the tremendous growth pressures we have recently been experiencing at our nation's seaports, airports, and international crossings, the Congress in 1986 responded by providing additional funding in fiscal year 1987 for an additional 850 Customs personnel over the FY 1986 staff levels. The final report language indicates a need for additional drug

enforcement personnel, as well as import specialists. About 12 to 20 of the new personnel have been earmarked for the Brownsville port of entry.

In order to compensate these additional personnel, the 1986 Budget Reconciliation Act established Custom User Fees on all cargo imported into the United States in fiscal 1987. It is an advalorem fee of 22¢ on every $100 worth of cargo. There is also a user charge of $5.00 per truck, $5.00 per rail car, and $47.00 per ocean vessel that enters our country. The Department of Justice has also established some new user fees to provide funding for additional immigration inspectors. This is consistent with the present trend in establishing user charges for persons requiring government services of all types.

Recognizing that there is a need for more additional bridges and inspection stations, a legislative amendment is needed recommending that a portion of the bridge toll be dedicated to a U.S. Government Personnel Payroll Fund in order to pay for the selection, hiring, and training of additional Customs personnel to provide these additional services which are badly needed at these bridges.

When I was in Washington on January 14th, I discussed this matter with Michael Lane, the Deputy Commissioner of Customs and with Robert A. Bartol, Director, Workforce Effectiveness and Development, Office of Inspection and Control of the U.S. Customs Service, Treasury Department. They told me that when U.S. Customs was evaluating user charges at our seaports, airports and international bridges, that they only considered applying the user charge to the trucks, rail cars, ships, etc., and a percentage of the advalorem value of the cargo being imported through our ports of entry, and they felt it would probably be impossible to collect a user fee from individuals crossing our international bridges. He said they overlooked the option of having the bridge owners who collect the bridge tolls to collect the fee for them. Considering that about 90 percent of the vehicles crossing our international bridges are passenger cars, and that the majority of the delays and congestion are caused by the inspection of these passenger vehicles, they liked the idea of adding a token amount to the bridge toll and having the bridge owners pay the

U.S. Government so-much per vehicle. By doing this, a healthy payroll fund could be established to pay for the additional Primary Inspectors that are needed.

For example, approximately 15,000 vehicles cross the two bridges at Brownsville each day. It is estimated that 10 percent of these are trucks which are paying a $5.00 charge, plus a .22¢ advalorem cargo fee. If the remaining 13,500 vehicles pay an additional 10¢ when paying their bridge toll, this would generate an additional $1,350.00 per average day. Since the typical Primary Customs Inspector is a GS-9, earning $12.20 per hour, there would be sufficient funds to pay for 14 additional primary inspectors working eight-hour shifts. In this manner, the U.S. Customs Service could supply the necessary inspectors to meet the demand at each specific port of entry. The funds collected at each port of entry could be earmarked and sent to the U.S. Treasury Department with specific instructions to pass on to the National Finance Center in Indianapolis, Indiana, to pay specific U.S. Customs inspectors at each port of entry, utilizing the present system of electronic bank transfers to individual bank accounts in their hometowns. If this system of user charges is implemented, people would be willing to pay the additional bridge toll knowing that they can cross the Rio Grande in a reasonably short period of time, rather than having to wait from 30 minutes to one and one-half hours.

For your additional information, our local Director of Customs explained to me that primary inspection services at our bridge are shared 50-50 by U.S. Customs and Immigration. Due to OSHA regulations, these primary inspectors are only allowed to inspect vehicles for only a one-half hour period, due to the potential health problems caused by the vehicular exhaust emmissions. The local supervisors have to rotate their inspectors every 30 minutes utilizing a 50-50 balance between Customs and Immigration inspectors. If a vehicle entering the country requires secondary inspection and special permitting, it is sent by the Primary Inspector to a Secondary group of agency specialists who make sure that the Customs, Immigration, Agriculture and Public Health laws are complied with.

For your additional information, new potential inspectors go through a lengthy process of application processing, selection, security clearance, and are then hired. Then they attend a seven-week Training Academy learning all the laws, policies, and procedures of their agency. Once they are assigned to a specific port of entry, all the Primary Inspectors go through a cross-training program where they learn the laws, policies and procedures of the other agencies serving that port of entry so that they can work as a team serving all the Services.

As mentioned before, the 1986 Budget Reconciliation Act is providing additional funding during fiscal year 1987 for the badly needed additional Customs personnel. At the beginning of this fiscal year, the Brownsville port of entry had only 64 Customs personnel to service two international bridges, an airport, and our seaport. It is expected to grow to 84 by the end of the fiscal year. If the Reagan Administration budget cuts are enacted, it will set us back to where we were and worsen our situation which still needs to be resolved.

Another related problem is the lack of adequate truck parking areas for import inspection at our present ports of entry. Our present bridges are located in congested areas with little or no room for expansion. The U.S. Customs officials I talked with agreed that additional bridges are definitely needed in order to decentralize the process to provide for a safer and more efficient flow of vehicles across the river. They welcome very strongly the fact that our bridge planners will be working with GSA and U.S. Customs officials to design and plan the optimum import inspection station for handling trucks, railroad cars, and passenger vehicles which will allow us to eliminate the flow of overloaded trucks, hazardous materials, and heavy lifts out of the downtown area and give them the capability to cross from Mexico directly to the port in a safe and efficient manner.

Without question, our rail-highway-bridge, with a properly designed port of entry, may serve as an ideal example for all future bridges to be built on the U.S.-Mexico border. We plan to cooperate with the

federal agencies to make sure that their needs are properly addressed. In this way, we will stimulate the trade and industrial development which we so badly need to bring about the economic recovery of this region.

Thank you for letting me share this information with you.

CORRIGAN DISPATCH COMPANY

CUSTOMS BROKERS — FREIGHT FORWARDERS

1350 CHEERS BOULEVARD BOX 3610 TELEPHONE 512/548-2320

TELEX 76-6614

BROWNSVILLE, TEXAS 78523-3610

February 04, 1987

Mr. William J. Wilkins
Staff Director and Chief Counsel,
United States Senate Committee on Finance,
First and Constiution Avenue, N.W.

Dear Mr. Wilkins,

This requests a hearing at Brownsville, February 11, 1987 related to proposed cuts of Customs Service Budget.

Activity at the Ports of Brownsville Eagle Pass, Hidalgo and the Port of Laredo have been understaffed for the past four years. Specifically, an Importer that is evaluating using Brownsville as a Port of Entry (for example, a Maquiladora at Matamoros) would ordinarily address himself to U.S. Customs, Brownsville for this purpose. Ordinarily, he would conduct such an interview with Lauro Cuellar, I S. This employee is a dedicated and committed individual. But one person cannot accomplish everything; he is incapable of handling all activity which the volume at this Port generates. The conclusion of this interview would be---as it has been on innumerable occasions in the past---that the Importer must date himself with U.S. Customs, Laredo and drive there for an interview.

The end result is that to discuss projected or current Brownsville Traffic, U.S. Customs at Laredo must be consulted.

An Importer is obliged to perform additional effort, independent of the fact that Customs Personnel at Laredo are attending non---Laredo traffic during this interview.

An aspect of the above is one of the results of the concept of Centralization. As a day-to-day contact of U.S. Customs for some time, we say the idea is unrealistic and unworkable. We take this opportunity to record our opposition. Centralization is not an answer to saving money.

Commercial cargo entering the U.S. by Motor Traffic enters on Mexican Trucks. Cargo is moving North in the same line with Tourist Traffic, or Passenger cars. The two types of traffic arrive simultaneously. Proper deployment and management so Customs/Immigration Inspectors will eliminate "line-wait" which would facilitate shipment clearance.

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What has to be kept in perspective is that the 1987 Missions are in conflict with each other. U.S. Customs Automation Systems are now in their infancy. When Reagan Administration alleges that existence of automation programs justify cuts, the Administration does not take into consideration realities that nullify the basics for cuts ("realities") are projected automation programs such as "line release" and "cargo selectivity." These two programs are not operative in 1987. The delusion is that these programs "free" Customs personnel.

The Private Sector has been creating and developing Automation Systems for 20 to 30 years. Those systems operate the way they do today because of those on-going efforts. A speculation is that U.S. Customs programs will be, at this point soon. Keeping in mind U.S. Customs 1987 Missions are two fold (i.e. faciliating commercial cargo clearance and drug interdiction). It could well be that benefits of automation would have to be set aside; additional personnel be required to intensify inspection nullifying all benefits of automation. Ports for entry on the Mexican Border are especially vulnerable to this Drug Traffic today. Cuts to the Customs Service at this particular moment, weaken any efforts being put forth today.

Alongside of the above, what must continually be evaluated is that continued developement of automation will put the Customs Service at a point where budget operations can be reduced. (The theory is that personnel can be reduced). Until Drug Traffic is controlled, and Customs can change its philosophy of intensified inspection (in order to fight drugs), automation will run into above mentioned conflict.

Cuts to Customs Budget cannot help Drug Traffic interdiction. On the contrary, additional amounts must be made available to perfect Automation and perfect Drug Detection Devices.

Cordially,

E. A. Corrigan

Senate Finance Committee Hearings
Management of U.S. Customs Service
Wednesday, February 11, 1987
9:00 a.m.--Texas Southmost College

STATEMENT OF R.M. DUFFEY, CHAIRMAN, CHIEF EXECUTIVE OFFICER, TEXAS COMMERCE BANK BROWNSVILLE

Mr. Chairman and distinguished gentlemen:

Thank-you for allowing me the opportunity to address you concerning potential community impacts of proposed staffing cutbacks and management changes of the U.S. Customs Service. We appreciate your interest in trying to determine how proposed staffing and management changes will affect border trade and commerce by conducting these hearings.

Adequacy of Customs Service staffing is a major community concern for Brownsville. Brownsville's geographic location and transportation facilities have historically made Mexico a major trading partner with our community. Approximately seventy percent of the tonnage passing through our deep water port is related to Mexico. The Brownsville/South Padre Island Airport is the air cargo leader of the three Lower Rio Grande Valley airports because of the volume of goods coming from Mexico. Brownsville ranks among the top five cities in Texas as a tourist destination and our sister city Matamoros is a key attraction drawing visitors to our area.

Today Brownsville, Texas and Matamoros, Tamaulipas make up a rapidly growing binational urban area of over half a million people. The Customs Service performs an integral role in the movement of goods and people between our two communities. We are deeply concerned that a reduction in Customs Service staffing could inhibit the flow of commerce between our two communities and further damage our local economy. With an unemployment rate more than twice the national average, Brownsville can ill afford measures which could restrict the growth of commerce and jobs.

The Customs Service is asked to perform a number of missions nationwide and all of these responsibilities are required at an international border location like Brownsville. As the administrator of U.S. Tariff laws, Customs assesses and collects duties on imported merchandise. Customs must control vessels, people and articles entering the United States. Customs is also responsible for preventing commercial fraud and smuggling. Customs is expected to halt terrorists at our international borders and finally Customs has been given a major role in the mission of stopping the flow of illegal drugs into the United States.

While the scope of the Customs Service mission along the border has been growing, they are being asked to do more with less. Illegal drug importation is a severe national problem that we must address, yet Customs must also have adequate manpower to efficiently process people and goods crossing our international border with Mexico for legitimate purposes. The overriding priority of drug interdiction at a time of imposed manpower reductions means less emphasis on commercial trade enforcement, the revenue producing mission of the Customs Service.

Remarks of R.M. Duffey

Manpower reductions of the Customs Service will affect the efficient movement of goods and people at our border crossings, thereby affecting local economic growth. Manpower reductions will mean longer delays at our two international bridges which will dissuade daily travel and negatively affect commercial trade, tourism and area industrial development. Manpower reductions will also slow the legitimate movement of goods across our international border.

We urge the Senate Finance Committee to take into account the economic impact of Customs Service personnel reductions on communities like Brownsville. If the Customs Service priority of narcotics interdiction takes all their limited manpower, then Customs' ability to effectively police other international laws and regulations to protect the public will be affected. In times of burgeoning federal deficits why cut a federal revenue collection agency? The Customs Service should be provided additional personnel resources to effectively carry out their many responsibilities.

LAREDO STATE UNIVERSITY
A Campus of the University System of South Texas

Institute for International Trade

TESTIMONY PRESENTED BY KHOSROW FATEMI, PH.D

INSTITUTE FOR INTERNATIONAL TRADE

LAREDO STATE UNIVERSITY

SENATE FINANCE COMMITTEE HEARING ON THE ROLE OF U.S. CUSTOMS SERVICE ON THE ECONOMIC DEVELOPMENT OF THE BORDER REGION WITH SPECIFIC REFERENCE TO LAREDO

INTRODUCTION

Laredo's economy has traditionally been based on trade with Mexico. As a result, it has always lacked the resiliency needed to overcome short-term economic setbacks. Perpetuated by the near collapse of Mexico's economy in recent years, this weakness has changed to sheer economic disaster. The economic reverses suffered by Laredo have made it the least developed city in the country, with a per capita disposable income of $3,784 (1985 figures) which is far below the national average for the U.S. and would place Laredo somewhere between Venezuela and Yugoslavia in per capita income. In fact, of the 317 Standard Metropolitan Statistical Areas (SMSAs) surveyed by the U.S. Department of Commerce, Laredo ranks 317th, the lowest in the country. Laredo's median household income of $15,135 in 1985 was only 64% of the national average of $23,680 and almost $9,000 below the state average of $24,059. (Please see Chart I.)

West End Washington St. Laredo, Texas 78040 (512) 722-8001

Poverty is only the ultimate manifestation of Laredo's many economic problems. Part of the reason for Laredo's economic quagmire is lack of economic diversification and heavy dependence on one economic activity, namely trade. The problem is further magnified by the the fact that almost all of this trade comes from one source: Mexico. The bilateral trade between Mexico and the United States, directly or indirectly, makes up the largest share of this community's economy. The largest private sector activity in Laredo is comprised of those service industries which are here to facilitate trade between the two countries. Even retail establishments in Laredo derive most of their business from Mexican shoppers.

A comparison of the city's disposable income and retail sales illustrates Laredo's dependence on trade with Mexico at the retail level. In 1985, the last year for which information is available, median household income in Laredo was $15,135. Yet, the city's retail establishments reported per household retail sales of $30,936.

In other words, in 1985 every Laredo household spent more than twice on retail purchases as its total earnings. (In contrast, the national average for retail sales as a percentage of disposable income is 66.7%.) Even in the boom days, this much reliance on the Mexican shopper may not have been an economically advisable situation; but under the economic realities of today, the stagnation

of trade activities caused by both the slow down of the U.S. economy and major economic problems of Mexico has severely hampered Laredo's already vulnerable economy.

Lest we think that this is a short term phenomenon, it should be noted that even though the numbers are indeed discouraging and more depressed than usual, they do represent a continuation of the past trend. And indications are, that unless this trend is reversed through government action and/or a major restructuring of the economy, this trend will continue. In fact, a recent survey by Sales and Marketing Management (October 27, 1986) forecasts that between 1985 and 1990, the city's average household income will increase at an average annual rate of 6.4 percent, compared with 8.8 percent for the State of Texas.

Examining the situation from a different perspective, that is unemployment, the picture becomes even more gloomy. During the past several years, Laredo's unemployment rate has generally been more than twice, sometimes more than three times the national or State average. (Please see Charts II-A and II-B) Laredo's current (December 1986) unemployment rate of 17.0 percent is more than 2.5 times the national average of 6.7 percent. The number of persons employed in Laredo has fluctuated between 30,200 and 37,700 during the last six years (1980-1986). (The average annual increase of the number of employed persons between 1981 and the present time has been less than 1.6 percent).

A final comment on the economic problems of Laredo stems

from income distribution within the community. Only 7.0 percent of households in Laredo have an income of over $50,000, compared to 15.2 percent for the state of Texas. On the other hand, 33.2 percent of Laredo households have an income of less than $10,000, compared to 19.4 percent for the State. (For details please see Chart III). This is a household income of not much above minimum wage rate for one person, and again it is not per capita income, rather, household income. Comparing it with the national income distribution, almost 70 percent of families in Laredo live below the national median household income of $23,680.

RECOMMENDATIONS

In the long run, several solutions can be applied to eliminate the current economic problems of Laredo. Unfortunately, the severity of the problem is such that more urgent and short-term solutions are required. In the interim Laredo's economy must be helped by the following:

1. The provision of greater educational opportunities in the region. This has to be accomplished through joint efforts of local, state, and federal authorities. The border region is generally suffering from a brain drain. Students who move to other parts of the country to receive their education often choose not to return to the region. This problem has to be solved by local authorities in identifying areas of need, by state authorities through the

provision of formal college educational opportunities, and finally by federal authorities through providing specialized training for local businesses. An example of the latter point would be greater involvement by the Small Business Administration in sponsoring, among other activities, specialized educational and training programs aimed at enhancing Laredo's economic development. For example, one of the reasons local businesses are not diversifying their operations, is lack of proper training in doing business or doing international business --in contrast to selling to Mexican shoppers and small retailers. SBA and the Commerce Department can be very helpful in providing specialized training in these and similar areas.

2. Another problem which besets the Border economy is the inability of local businesses to recognize problems and opportunities. As an example of the former, hundreds of business establishments on the border lost large sums of money in 1982 when they did not foresee (a) an imminent devaluation of the Mexican peso, and (b) the severity of the the problem that such a major devaluation of the peso would bring to their businesses. In fact, many of them continued to grant credit to Mexican shoppers even after the peso had been devalued. Access to information which would have forecasted the peso's unavoidable fall and/or a better

understanding of principles of international business, or even basic economics, on their part would have prevented the loss of tens of millions of dollars by Border businesses.

On the other hand, great business opportunities are often lost when lack of information deprives local businesses from entering a certain market or producing a certain product. The Border in general suffers from an information gap. Very little information is available on the border economy and this paucity of data deprives Border businesses of many opportunities. Establishment of a data-base for the Border will substantially alleviate this particular problem. The data-base center's mission would be threefold. First, it will compile different economic financial, and trade-related figures on and about the border and serve as a nucleus where this information will be maintained. Second, the data-base will have the expertise needed to analyze the collected information. It will also publish periodic and frequent reports on the economic status of the Border. Thirdly, it will make its information --raw data as well as its analyses-- available to all interested parties which would include not only business establishments and other residents of the Border, but interested researchers and potential users throughout the country.

Many advantages of the above and other short-term solutions

notwithstanding, Laredo's long-term prospects depend on its ability to diversify and broaden its economic base. Diversification, however, is a time-consuming process and will often necessitate structural adjustments which in the short-term may, in fact, be counter-productive. Furthermore, the right time for diversification is not when the economy is in serious trouble, as Laredo's economy currently is. Diversification must be implemented when its adverse effects --among others, the added unemployment caused by the displacement of workers in weaker (if not obsolete) industry. At any rate, diversification will not come by itself and strong incentives are needed to assist and facilitate this process.

One significant step which would not only facilitate the diversification process but would also generate many other advantages for Laredo would be to convert the city into a free port --as differentiated from a free trade zone. The logistics of this proposal are very simple and may even be cost effective. Under this proposal, customs inspection points would be moved from their present locations on the border to about ten miles outside Laredo; thus creating a free port of about 100 square miles in total area around the city. All the goods brought in this area from outside the United States would not be subject to any tariffs or other restrictions. All such controls would be exercised when these goods are taken out of the free port area. Additionally, all the goods brought into this area from the

United States would be treated as transitory exports and not subject to any export regulations. If these goods are shipped outside the U.S., then all relevant regulations would apply. If, on the other hand, these products are further processed and shipped back into the U.S. they would not be subject to any tariff or quantitative restrictions.

Creation of a free port in Laredo will have all the advantages of diversification without any of its short-term economic disturbances. Specifically, giving Laredo a free port status would accomplish the following objectives:

a. It would result in a substantial increase in trade both at retail and wholesale levels.

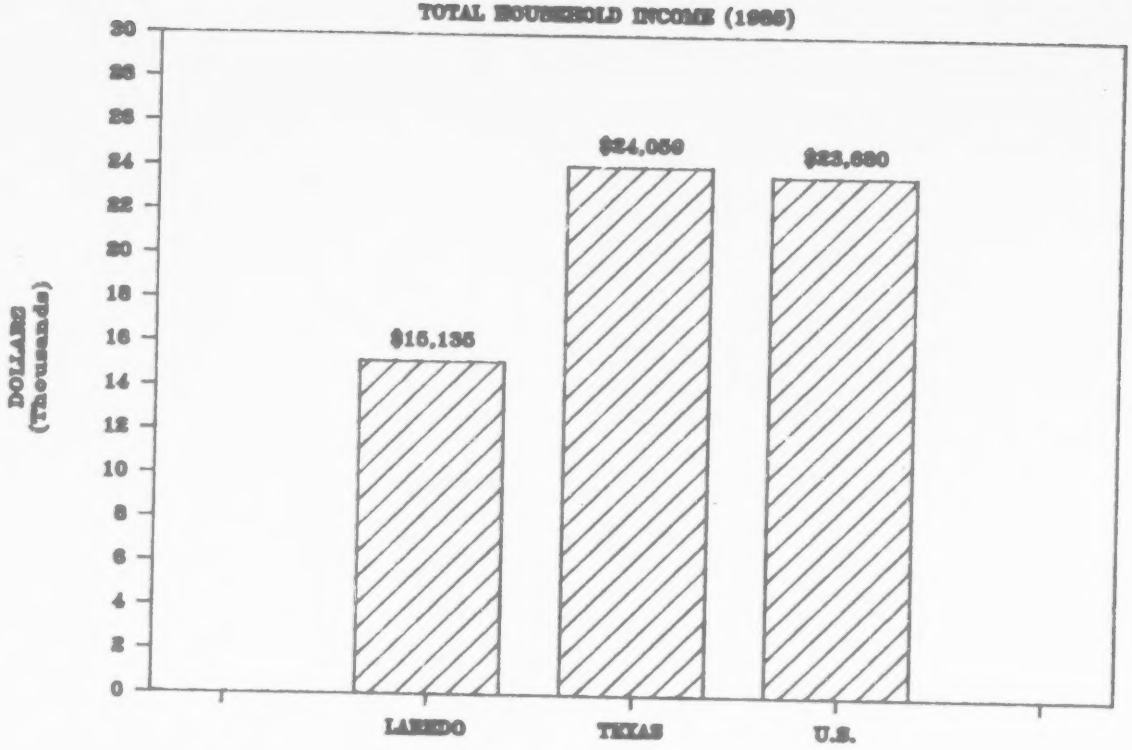
b. It would lead to the establishment of industries within the confines of the free port. This industrialization would come not only because of the less expensive Mexican worker who works in a twin plant, but also because there would be a genuine increase in local sales --not just to local residents, but also to many others who would find it advantageous to travel two or three hundred miles to shop in Laredo.

c. It would reduce the city's unemployment problem by creating new and diverse employment opportunities.

d. It would alleviate the community's income problem. It would bring Laredo out of the ranks of developing countries and place it more in line with the rest of the country.

e. Additionally, the resultant diversification of the economic base of Laredo would reduce its vulnerability and protect it from future economic disturbances.

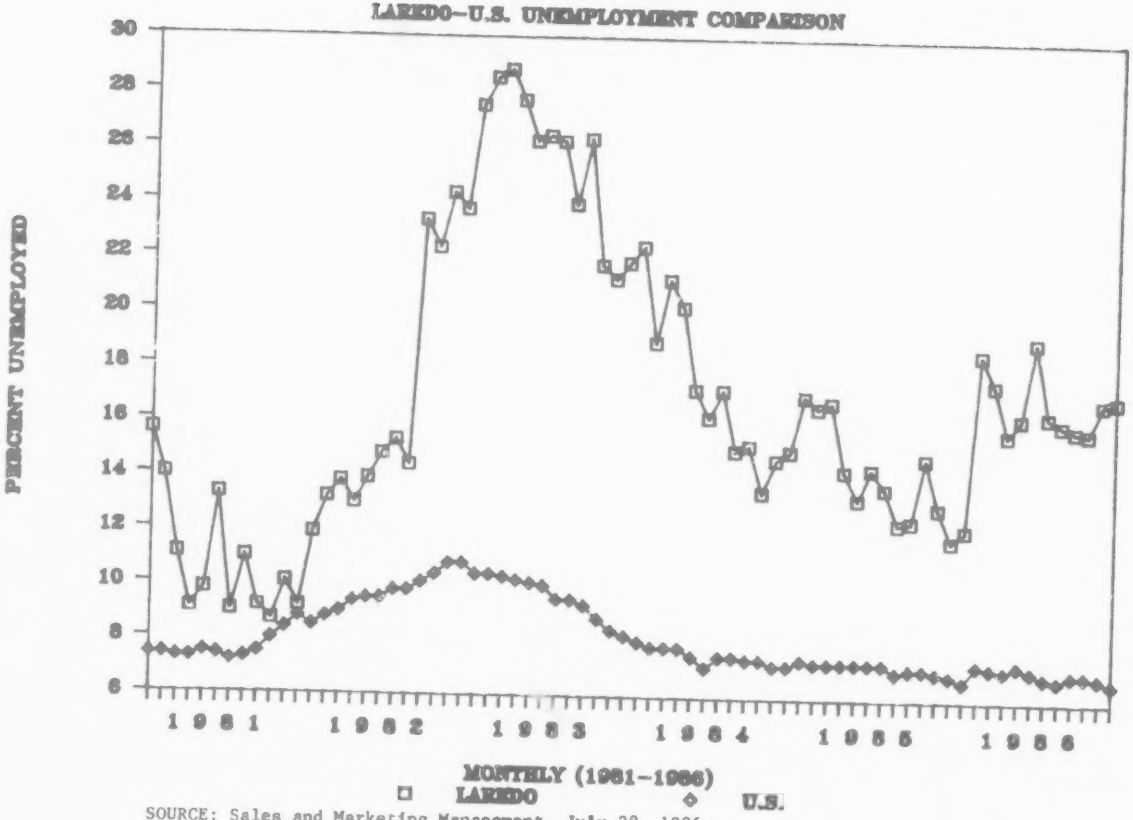
CHART I



SOURCE: Sales and Marketing Management, July 28, 1986.

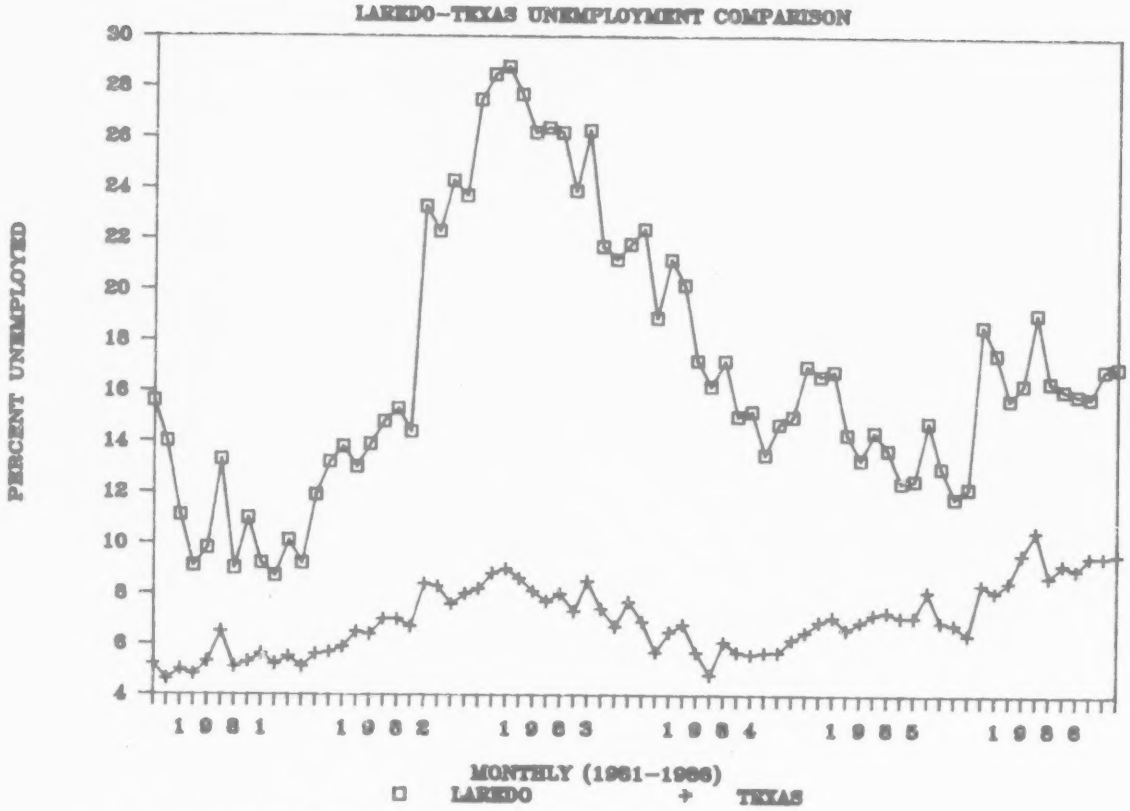
CHART II–A

LAREDO–U.S. UNEMPLOYMENT COMPARISON



SOURCE: Sales and Marketing Management, July 28, 1986.

CHART II–B



SOURCE: Sales and Marketing Management, July 28, 1986.

CHART III-A

INCOME DISTRIBUTION FOR LAREDO (1985)

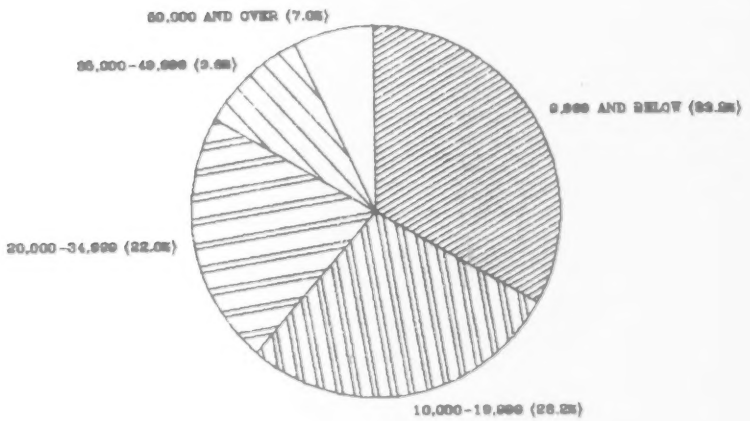
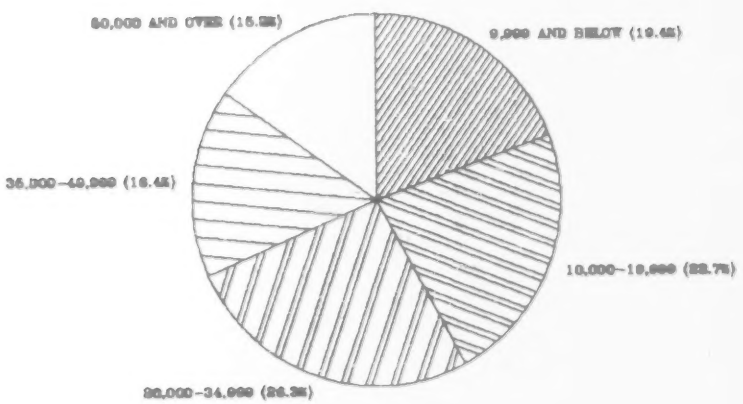


CHART III-B

INCOME DISTRIBUTION FOR TEXAS (1985)



SOURCE: Sales and Marketing Management, July 28, 1986.

Laredo Development Foundation

REPORT TO THE SENATE FINANCE COMMITTEE

SENATOR LLOYD BENTSEN, CHAIRMAN

"THE ROLE OF UNITED STATES CUSTOMS SERVICE ON BORDER ECONOMIC DEVELOPMENT IN LIGHT OF PROPOSED BUDGET CUTS"

Prepared by:

Linda L. Howland
Acting Director
Laredo Development Foundation
February 11, 1987

INTRODUCTION

THE SENATE FINANCE COMMITTEE INVESTIGATION OF U.S. CUSTOMS SERVICE AND ITS CURRENT ROLE IN BORDER TRADE WILL INVARIABLY REVEAL CONTRADICTORY CLAIMS ON MANAGEMENT AND EFFICIENCY.

THE LAREDO DEVELOPMENT FOUNDATION, NOT BEING DIRECTLY INVOLVED IN THE BROKERAGE OF GOODS OR CUSTOMS PROCEDURES, WILL NOT CONCENTRATE ON THE EFFICIENCY OR MANAGEMENT OF CURRENT PROCEDURES. INSTEAD, THE LAREDO DEVELOPMENT FOUNDATION WILL EMPHASIZE THE REASONS WHY THE ROLE OF UNITED STATES CUSTOMS SERVICE IS ESSENTIAL TO CONTINUED ECONOMIC DEVELOPMENT OF LAREDO.

THE LAREDO DEVELOPMENT FOUNDATION IS A PRIVATE, NON-PROFIT CORPORATION FUNDED BY LOCAL BUSINESS AND COMMUNITY LEADERS DEDICATED TO LAREDO'S CONTINUED ECONOMIC AND INDUSTRIAL DEVELOPMENT.

THE PRIMARY RESPONSIBILITY OF THE LAREDO DEVELOPMENT FOUNDATION IS TO HELP CREATE JOBS. THE FOUNDATION ACTS AS LOS DOS LAREDO'S FOCAL POINT FOR ATTRACTING NEW INDUSTRIES AND DELIVERING THE FINANCIAL AND ECONOMIC RESOURCES NEEDED FOR LOCAL INDUSTRIAL EXPANSION.

THE ULTIMATE GOAL OF THE LAREDO DEVELOPMENT FOUNDATION IS TO MAKE LAREDO MORE ECONOMICALLY SELF-SUFFICIENT BY EXPANDING OUR INDUSTRIAL BASE AND INCREASING OUR TAX BASE. EVERYTHING THE LAREDO DEVELOPMENT FOUNDATION DOES IS DESIGNED TO HELP CREATE JOBS IN LAREDO, TEXAS ---- INCLUDING USING THE WORLD-WIDE INTEREST IN TWIN PLANTS OR "MAQUILADORAS" TO THE BEST POSSIBLE ADVANTAGE. WE MUST CREATE MORE JOBS IN THE MANUFACTURING SECTOR IF LAREDO IS TO SURVIVE, LET ALONE GROW. LIKE MOST BORDER AREAS, LAREDO IS A SINGLE-INDUSTRY TOWN DEDICATED TO INTERNATIONAL TRADE AND IS VULNERABLE TO "OUTSIDE" ECONOMIC FORCES. NEW INDUSTRIES WOULD AID IN THE SORELY NEEDED DIVERSIFICATION.

ALL THE INTERNATIONAL TRADE ACTIVITIES THAT I AM ABOUT TO DISCUSS ARE ACTIVITIES THAT MUST BE TRANSACTED WITH EASE AND EFFICIENCY. THE INCREASING INTEREST IN MAQUILADORAS AS WELL AS THE CURRENT PRESENCE OF MAQUILADORAS COUPLED WITH THE FLOURISHING FREIGHT INDUSTRY IN LAREDO EMPHASIZE THE IMPORTANCE OF THE U.S. CUSTOMS SERVICE AS THE VITAL LINK IN THE INTERNATIONAL TRADE ACTIVITY THAT TAKES PLACE BETWEEN THE ECONOMIES OF LAREDO AND NUEVO LAREDO.

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PROMPT CUSTOMS CLEARANCE OF COMMODITIES HAS THE DIRECT IMPACT OF FOSTERING COMMERCIAL TRANSACTIONS WHICH POSITIVELY BOOST ECONOMIC DEVELOPMENT IN BOTH NATIONS.

TIME AND MOTION STUDIES OF THE PROCESSING OF CARGO THROUGH CUSTOMS AND THE RELATED DOCUMENTATION, INCLUDING CUSTOMS PERSONNEL INVOLVED IN EACH OPERATION, SHOULD BE REVIEWED IN ORDER TO ELIMINATE UNNECESSARY STEPS AND TO SIMPLIFY EXISTING COMPLEX PROCEDURES.

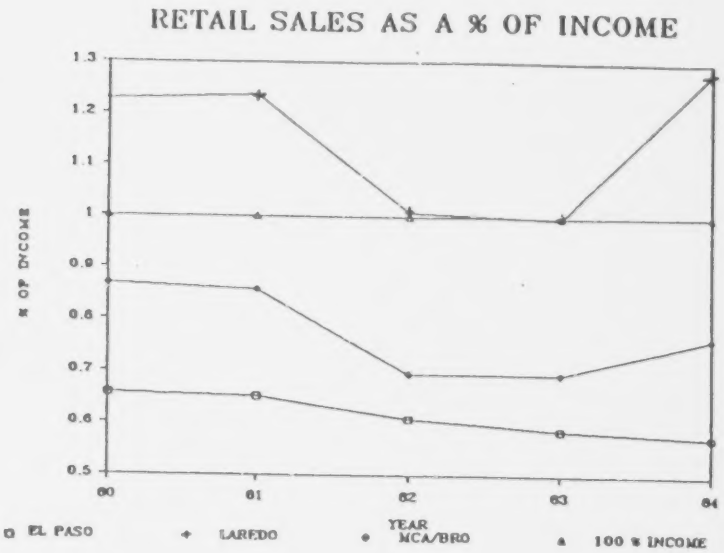
THE COMPTROLLER OF TEXAS HAS DEFINED THE BORDER AS COMPRISING A THIRTY COUNTY AREA ALONG THE RIO GRANDE. THIS AREA OF OUR STATE IS UNITED BY THE COMMON THREAD OF 1,200 MILES OF RIVER FROM EL PASO AND ITS SISTER CITY OF JUAREZ TO BROWNSVILLE AND MATAMOROS ON THE GULF OF MEXICO. THE TEXAS SIDE IS THE FASTEST GROWING POPULATED AREA OF THE STATE WITH A POPULATION OF 1.4 MILLION IN 1980 AND IS PROJECTED TO GROW TO 2 MILLION BY THE YEAR 2000. THE POPULATION ON THE MEXICAN SIDE OF THE RIVER IS MORE THAN TWICE THAT OF ITS' TEXAS COUNTERPARTS.

OF THE TOTAL POPULATION, 1.2 MILLION OR 86% ARE CONCENTRATED IN THREE SEPARATE METROPOLITAN AND TRADING AREAS, NAMELY EL PASO, LAREDO AND THE VALLEY FROM MISSION TO HARLINGEN ON THE EAST AND SOUTH TO BROWNSVILLE.

	TEXAS	EL PASO	LAREDO	McALLEN/ HIDALGO CO	BROWNSVILLE/ CAMERON CO
POPULATION	(000)				
1985	16,396	545,000	118,000	352,200	249,800
2000	21,000	791,000	176,000	1,023,500(comb.)	
GROWTH RATE	28.08	45.13	49.15	70.24(comb.)	
EMPLOYMENT % (1986)					
MANUFACTURING	14.3	18.1	5.4	14.4	13.9
NON-MANUFACTURING					
MINING	2.9	.1	4.5	1.6	.2
CONSTRUCTION	5.9	5.0	3.7	5.1	4.8
TRANSPORTATION & COMM. & UTILITIES	5.6	5.5	10.2	3.2	5.2
TRADE, WHSLE. & RETAIL	26.0	26.3	29.7	30.3	27.7
FINANCE & INSURANCE	6.8	5.3	4.5	4.4	5.3
SERVICES	20.7	19.1	17.6	15.3	19.5
GOVERNMENT	17.8	20.6	24.4	25.7	23.4
UNEMPLOYMENT	8.7	11.1	16.9	20.3	14.8

LAREDO WITH ITS SMALL MANUFACTURING BASE (5.4%) AND HEAVY DEPENDENCY ON RETAIL SALES AND INTERNATIONAL TRADE CONTINUES TO SUFFER HIGH UNEMPLOYMENT.

THE DEPENDENCY OF LAREDO ON RETAIL SALES IS BORN OUT BY STATISTICS FROM THE LAREDO BRIDGE SYSTEM AND AS THE GRAPH SHOWS, THE RELATIONSHIP OF DISPOSABLE INCOME TO RETAIL SALES.



Source: Institute for International Trade

THE RELIANCE ON FORCES OUTSIDE THE AREA IS BEST SHOWN BY CHARTING PER CAPITA SALES WITH DISPOSABLE INCOME.

LAREDO IS THE GATEWAY TO MEXICO SITTING ASTRIDE THE PAN AMERICAN HIGHWAY AT THE U.S. - MEXICAN TERMINUS. ALSO, LAREDO HAS INTERNATIONAL RAIL FREIGHT SERVICE JOINING THE UNION PACIFIC SYSTEMS WITH THE MEXICAN NATIONAL RAILWAY SYSTEM. THESE FACILITIES SERVE U.S. MARKETS THROUGHOUT THE COUNTRY AND HAVE MADE LAREDO THE NATION'S PRIMARY INLAND PORT FOR BOTH TOURISTS AND INTERNATIONAL TRADE. AS SHOWN IN EXHIBIT "A".

LAREDO IS THE LARGEST INLAND PORT IN THE UNITED STATES. IT LEADS ALL TEXAS - MEXICO BORDER PORTS IN SHIPMENTS OF GOODS INTO MEXICO BY TRUCK, RAIL AND AIR. TOTAL TOLLS COLLECTED FOR 1986 CONTRIBUTED $5,499,434 TO THE LAREDO BRIDGE SYSTEM. SURVEYS PUBLISHED BY LAREDO STATE UNIVERSITY'S INSTITUTE FOR INTERNATIONAL TRADE INDICATE THAT FOR 1986, LAREDO PROCESSED A TOTAL OF 40,462 LOADED RAIL CARS AND A TOTAL OF 120,643 LOADED TRUCKS. ALSO A POPULAR TOURIST CROSSING, ENTRIES INTO THE INTERIOR OF MEXICO FROM LAREDO NUMBERED 14,536,176 FOR THE SAME YEAR. THIS FIGURE REPRESENTS HALF OF THE ENTRIES AT ALL OTHER BORDER CROSSINGS COMBINED.

THE RECOVERY OF MEXICO FROM ITS CURRENCY ADJUSTMENT OF 1982-83 ENDED ABRUPTLY IN 1985 WITH THE CATASTROPHIC EARTHQUAKE AND SUBSEQUENTLY, THE COLLAPSE OF MEXICO'S PRINCIPAL SOURCE OF REVENUE, PETROLEUM, IN JANUARY, 1986. DESPITE THESE PROBLEMS, MEXICO UNDER PRESIDENT DE LA MADRID, CONTINUES TO PURSUE SOLUTIONS TO THAT NATION'S FINANCIAL PROBLEMS.

AMONG THE MAJOR DEVELOPMENTS THAT HAVE PLAYED A VITAL ROLE IN THE INDUSTRIALIZATION AND DIVERSIFICATION OF THE MEXICAN ECONOMY RECENTLY, PARTICULARLY ALONG THE U.S. - MEXICO BORDER IS THE MAQUILADORA OR IN-BOND ASSEMBLY PROGRAM. THE PROGRAM, WHICH WAS INITIATED BY THE MEXICAN GOVERNMENT IN 1965, HAS BECOME AMONG THE MOST IMPORTANT TOOLS FOR ECONOMIC DEVELOPMENT AND JOB CREATION IN MEXICO AND SOUTH TEXAS. MOREOVER, THE MAQUILADORA HAS BECOME A MAJOR SOURCE OF FOREIGN INVESTMENT CAPITAL IN MEXICO AND HAS CONTRIBUTED SIGNIFICANTLY TO THE INDUSTRIALIZATION OF MEXICO AND SOUTH TEXAS' DEPRESSED BORDER REGION. THROUGH THESE EFFORTS, MEXICO HAS BEEN ABLE TO ATTRACT MAJOR-

AMERICAN COMPANIES THAT INCLUDE RCA, GENERAL ELECTRIC, MOTOROLA, GENERAL MOTORS, AND OTHERS TO THE BORDER REGION AND INTERIOR MEXICO.

UNDER THE PROGRAM, FOREIGN COMPANIES CAN IMPORT INTO MEXICO FREE OF DUTY, ALL NECESSARY MACHINERY, RAW MATERIALS, AND EQUIPMENT FOR THE PRODUCTION OF GOODS AND ONCE ASSEMBLED, MUST BE EXPORTED FROM MEXICO. AN IN-BOND PLANT IS AN ECONOMIC UNIT OF INDUSTRIAL PRODUCTION BASED ON TEMPORARY IN-BOND IMPORTATION OF RAW MATERIALS, PARTS OR COMPONENTS FOR THE MANUFACTURING, PROCESSING OR ASSEMBLING OF PRODUCTS FOR EXPORTATION OR CONSUMPTION ABROAD.

MANY OF THE COMPANIES THAT PARTICIPATE UNDER THE IN-BOND PROGRAM ALSO QUALIFY UNDER TARIFF ITEMS 806.30 AND 807.00. A PLANT IN MEXICO, AND A PLANT ON THE U.S. SIDE OF THE BORDER ARE USED TO COMPLEMENT EACH OTHER IN PRODUCTION PROCEDURES. WHEN THE U.S. PLANT COMPLETES THE SUB-ASSEMBLY OR PROCESS IT IS RETURNED TO THE HEADQUARTERS SITE WHICH COMPLETES THE PRODUCTION PROCESS. THE MAJOR OBJECTIVE OF THE IN-BOND INDUSTRIES ARE TO EXPORT PRODUCTS FOR DISTRIBUTION IN THE U.S. AND OTHER COUNTRIES. HOWEVER, AN IN-BOND PLANT CAN SELL ITS PRODUCTS TO THE MEXICAN MARKET IF THE PRODUCT IS NOT MANUFACTURED IN MEXICO AND CANNOT BE REPLACED BY OTHER PRODUCTS ALREADY PRODUCED IN MEXICO.

DIRECTING YOUR ATTENTION TO THE IMPORTANCE OF MAQUILADORAS TO LAREDO, THERE ARE CURRENTLY 26 MAQUILADORAS EMPLOYING APPROXIMATELY 5,500 PEOPLE IN NUEVO LAREDO.

ONE MAQUILADORA CURRENTLY OPERATING IN NUEVO LAREDO HAD TOTAL EXPENDITURES OF $5.2 MILLION FOR PURCHASES OF GOODS AND SERVICES. APPROXIMATELY $3.5 MILLION OF THAT TOTAL WERE SPENT IN LAREDO, TEXAS ALONE.

BECAUSE OF THE IMPORTANCE OF THE 806.30/807 PROGRAM TO LAREDO/NUEVO LAREDO AND TO MEXICO AND THE UNITED STATES IT IS HOPED THERE WILL BE AN EXPANSION OF THESE PROGRAMS.

AT BEST, THESE PROGRAMS MUST BE MAINTAINED IN ORDER TO CONTINUE LAREDO'S GROWTH, BUT WE MUST RECRUIT SUPPORT ACTIVITIES AND CONTINUE TO EXPAND INFRASTRUCTURE. WE MUST DEVELOP A MANUFACTURING BASE IN LAREDO.

CONCURRENT WITH THE DEVELOPMENT AND EXPANSION OF MANUFACTURING, WE MUST IMPROVE LAREDO'S PORT FACILITIES TO ENABLE IT TO PROPERLY FULFILL ITS ROLE IN THE COMMERCE BETWEEN THE TWO CITIES. WE HAVE INCLUDED GRAPHS SHOWING EMPLOYMENT AS RELATED TO EXPORTS AND IMPORTS IN LAREDO IN EXHIBIT "B". (INSTITUTE FOR INTERNATIONAL TRADE)

THE IN-BOND PLANTS HAVE BEEN MAJOR CONTRIBUTORS TO ECONOMIC DEVELOPMENT EFFORTS IN U.S. - MEXICAN BORDER COMMUNITIES INCLUDING EL PASO, LAREDO AND BROWNSVILLE.

ALSO, THESE IN-BOND PLANTS HAVE PROVIDED THE FINANCIAL MEANS TO MAINTAIN AND IMPROVE THESE COMMUNITIES' INFRASTRUCTURE. INCLUDED IN THESE MOST IMPORTANT FUNCTIONS ARE ROADS AND BRIDGES, WATER, SEWER AND COMMUNICATION SYSTEMS.

ADDITIONALLY, THERE ARE THE BUSINESSES OF BROKERAGE, CUSTOMS AND WAREHOUSING, ALL RELATED TO THE MOVEMENT OF GOODS BETWEEN THE UNITED STATES AND MEXICO, PRINCIPALLY FOR MAQUILADORA OPERATIONS.

THESE MAQUILADORA OPERATIONS HAVE HAD A MULTIPLE IMPACT IN THE MEXICAN CITIES IN WHICH THEY ARE LOCATED. NOT ONLY HAVE THEY CONTRIBUTED TO RAISING THE LIVING STANDARDS OF THE EMPLOYEES, BUT A BROAD SPECTRUM OF FACILITIES WITHIN THE COMMUNITY ARE ALSO IMPROVED BY THEIR PRESENCE.

AS HAS OFTEN BEEN POINTED OUT, TRULY THE RIO GRANDE TIES THE BORDER CITIES OF MEXICO AND THE UNITED STATES TOGETHER. WHAT IS GOOD FOR ONE IS GOOD FOR THE OTHER; AND AS IS NOW THE CASE, WHEN ONE CITY IS CUT BOTH CITIES BLEED.

GIVING EMPHASIS TO THE RECIPROCAL NATURE OF MAQUILADORAS, THE LAREDO DEVELOPMENT FOUNDATION RECENTLY SURVEYED 5 OF THE 26 MAQUILADORAS CURRENTLY OPERATING IN NUEVO LAREDO. THESE 5 ARE REPRESENTATIVE OF APPROXIMATELY 30% OF THE TOTAL MAQUILADORA EMPLOYMENT. THE ECONOMIC IMPACT OF THESE 5 MAQUILADORAS IS SHOWN IN THE FOLLOWING TABLE.

(FIGURES AS OF 12/86)

TOTAL NUMBER OF EMPLOYEES	1,661
TOTAL PAYROLL	$ 1,480,000
ANNUAL PAYROLL FOR LAREDO, TX EMPLOYEES	$ 3,140,000
CASH FLOW THROUGH LAREDO BANKS	$25,300,000
EXPENDITURES FOR TRANSPORTATION	$ 1,597,000
NUMBER OF U.S. SUPPLIERS	530
TOTAL AMOUNT SPENT ON U.S. SUPPLIERS	$31,000,000
VISITORS TO MAQUILADORA PLANTS	450
LAREDO EXPENDITURES OF VISITORS (AVG. 3 DAYS @ $75.00 EACH DAY)	$ 101,250

THE IMPACT OF THE EXPANDING INDUSTRY MAY DRAMATICALLY INCREASE LAREDO'S ECONOMIC TAX BASE. THE ECONOMIC SPILLOVER FROM THE ADDITION OF A PLANT OR FACTORY BENEFITS NOT ONLY ITS EMPLOYEES AND THEIR FAMILIES, BUT THE ENTIRE COMMUNITY AS WELL. THE FLOW OF PAYROLL DOLLARS INTO LOCAL CASH REGISTERS AND BANK ACCOUNTS RESULTS IN A NET GAIN TO THE LOCAL ECONOMY. INCREASES IN OTHER SECTORS OF EMPLOYMENT PLUS INCREASES IN POPULATION, SCHOOL ENROLLMENT, AND - OVERALL GROWTH, REFLECT THE GENERAL ECONOMIC EXPANSION GENERATED BY THE NEW BUSINESS. IN PARTICULAR, INCREASED HOUSING AND NEW CONSTRUCTION STARTS, EXPENDITURES ON CARS, CLOTHING AND GROCERIES WILL REBOUND IN INCREASED RESOURCES FOR CITY AND COUNTY GOVERNMENTS.

ONE MUST ALSO TAKE INTO ACCOUNT THE NUMBER OF PEOPLE WHO VISIT LAREDO/NUEVO LAREDO IN CONNECTION WITH THE TWIN PLANTS. VISITORS WILL SPEND AN AVERAGE OF 3 TO 5 DAYS IN LAREDO HOTELS. USING A FACTOR OF $75.00 A DAY SPENT BY EACH VISITOR FOR ROOM, FOOD AND MISCELLANEOUS EXPENSES, THESE EXPENDITURES REPRESENT SIGNIFICANT INCREASES IN LAREDO'S ECONOMIC BASE.

AN INCREASE IN EXECUTIVES TRAVELING TO LAREDO FROM THE HOME PLANT INCREASE HOTEL/MOTEL AND CAR RENTAL REVENUES.

U.S. CUSTOMS BROKERS AND RELATED BUSINESS SUCH AS TRUCKING BENEFIT FROM INCREASED ACTIVITY. FOR EXAMPLE, 5 MAQUILADORAS ARE RESPONSIBLE FOR GENERATI[illegible] $1,597,000 IN TRANSPORTATION REVENUES.

WHEN A CORPORATION DETERMINES THE ECONOMIC FEASIBILITY OF OPENING A PLANT IN LAREDO OR NUEVO LAREDO THE LOCAL REAL ESTATE MARKET IS IMMEDIATELY IMPACTED BECAUSE OF LAND SALES, RESIDENTIAL DEVELOPMENTS AND NEW HOME CONSTRUCTION.

FOREIGN TRADE ZONE ACTIVITY IS USUALLY INCREASED BECAUSE OF MAQUILADORA ACTIVITY.

SUPPLIERS OF ELECTRONIC SUPPLIES, CARD BOARD CARTONS, TOOL MAKERS, EMPLOYMENT AGENCIES AND OTHER SERVICE ORGANIZATIONS BENEFIT.

BANKING INSTITUTIONS BENEFIT FROM NEW CORPORATE ACCOUNTS AND BANK ACCOUNTS OPENED BY MAQUILA STAFF PEOPLE. AS INDICATED IN THE LAREDO DEVELOPMENT FOUNDATION SURVEY OF 5 MAQUILADORAS, CASH FLOW THROUGH LOCAL BANKS DIRECTLY ATTRIBUTABLE TO MAQUILADORAS AMOUNTED TO $25,300,000. THE BANKS ALSO GET INVOLVED IN FINANCING FACILITIES IN LAREDO, SUCH AS WAREHOUSES, PRIVATE HOMES, ETC.

IN SUMMARY, THE ABOVE ARE ONLY A FEW OF THE BENEFITS DERIVED BY BUSINESSES WITHIN THE COMMUNITY. AN INCREASE IN MAQUILADORA ACTIVITY RESULTS IN DIRECT ECONOMIC BENEFITS TO MANY SECTORS OF LAREDO'S COMMUNITY. AS THESE SECTORS CONTINUE TO GROW, THEY MUST HIRE MORE PEOPLE TO CONTINUE TO RUN EFFICIENTLY THEREBY DECREASING UNEMPLOYMENT THROUGHOUT THE CITY.

THE OVERALL IMPACT OF NEW MANUFACTURING JOBS ON A COMMUNITY CONTINUES TO BE IMPORTANT. IT SPURS GROWTH IN THE ENTIRE ECONOMY OF A COMMUNITY. NEW INDUSTRY PAYS OFF IN TERMS OF A GREATER TAX BASE, MORE RETAIL BUSINESS AND THE CREATION OF NON-MANUFACTURING JOBS IN THE AREA.

WAREHOUSING, TRUCKING AND IMPORT/EXPORT BROKERAGE HOUSES SUPPORTED LARGELY BY MAQUILADORA OPERATIONS HAVE PROVED TO BE THE BACKBONE THAT HAS HELD LAREDO TOGETHER THROUGH THE SUCCESSIVE BLOWS THAT HAVE ATTACKED ITS ECONOMIC BASE.

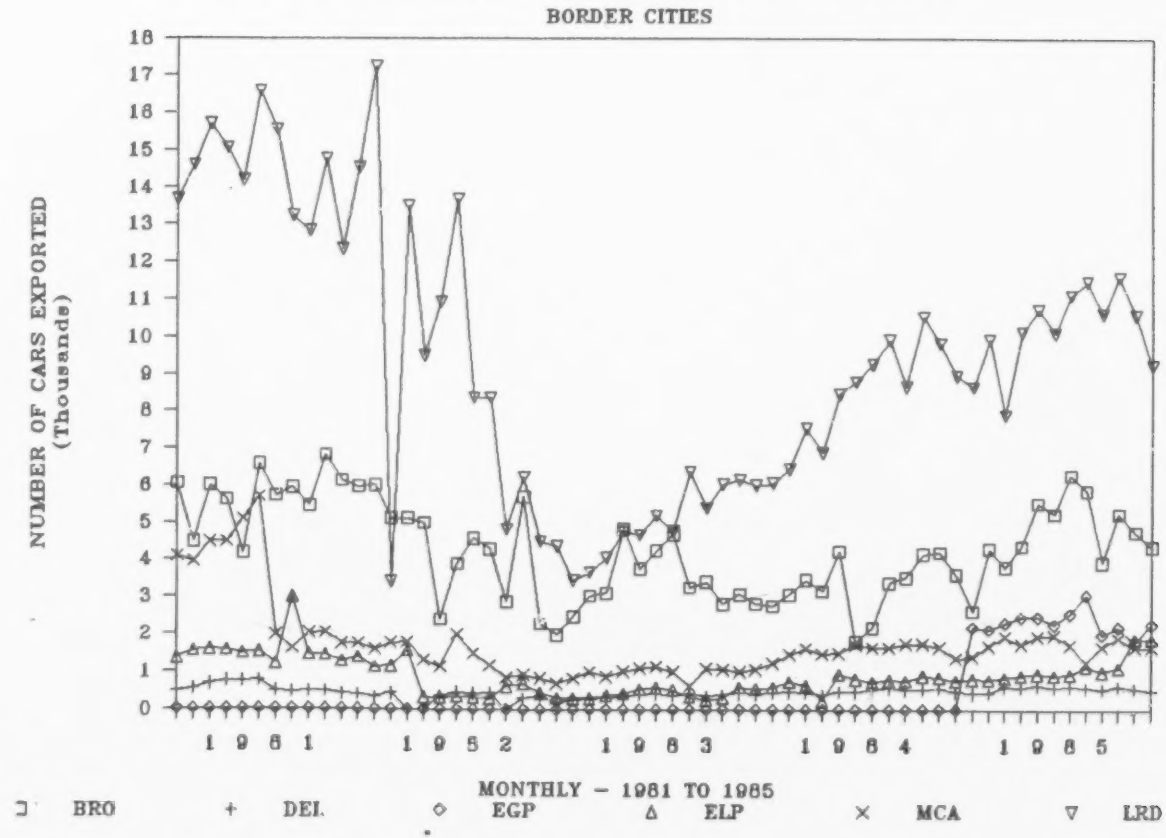
LAREDO HAS SUSTAINED SEVERE REDUCTIONS IN ITS FORCE OF U.S. CUSTOMS OFFICERS ASSIGNED TO THE PORT OF LAREDO. THE REDUCTION OF THESE OFFICERS HAS MATERIALLY AFFECTED THE EFFICIENT OPERATION OF THE PORT AND THE HANDLING OF THE MASSIVE AMOUNT OF DAILY TRUCK TRAFFIC.

IT SHOULD BE POINTED OUT THAT IN LAREDO, THE LARGEST INLAND PORT CITY, BUT OTHERWISE AN ECONOMICALLY DEPRESSED AREA, THE U.S. CUSTOMS SERVICE HISTORICALLY, IS A PROFIT MAKING AGENCY FOR THE FEDERAL GOVERNMENT. LAREDO'S CONTRIBUTION IS SUBSTANTIAL. IT IS HOPED THAT LEGISLATORS WILL SECURE EQUITABLE TREATMENT IN PROPORTION TO THE REVENUES GENERATED BY LAREDO.

WHILE LAREDO IS MINDFUL OF WHAT THE FUTURE PROMISES, IT IS WELL AWARE OF WHAT HAS SHAPED IT: THE INDUSTRY OF INTERNATIONAL TRADE THAT HAS ESTABLISHED ITSELF IN THE CITY AND HAS CONTINUED TO MAKE A COMMITMENT TO THE COMMUNITY AND THE ECONOMY.

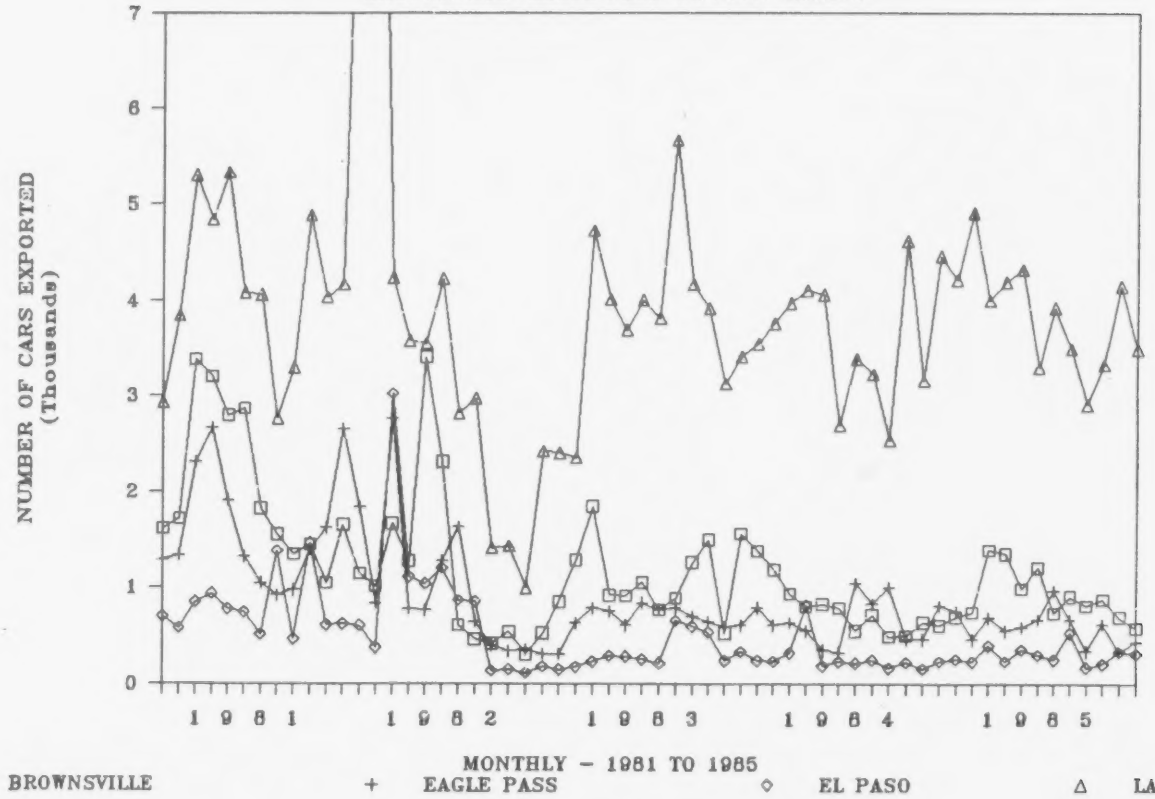
EXHIBIT "B"

EXPORTS BY LOADED TRUCK



EXPORTS BY LOADED RAIL CAR

BROWNSVILLE–EAGLE PASS–EL PASO–LAREDO



LAREDO BRIDGE SYSTEM

A Department and Agency
of the City of Laredo
P. O. BOX 518 • TELEPHONE 723-4423
LAREDO, TEXAS 78040

Bridge Managing Director

TRAFFIC-DISTRIBUTION

CALENDAR YEAR 1984 VS 1985
CALENDAR YEAR 1985 - 1986

MONTH YEAR	TOTAL VEHICLES	TOTAL PASSENGERS IN VEHICLES	TOTAL FOOT PASSENGERS	TOTAL BICYCLES	TOTAL FREIGHT	TOTAL TOLLS
1985	5,530,312	11,143,686	3,072,734	65,178	$ 779,933.00	$ 4,713,238.24
1984	5,411,559	10,936,361	2,932,308	68,053	605,535.00	3,739,573.02
DIFFERENCE 1984	118,753	207,325	140,426	-(2,875)-	$ 174,398.00	$ 973,665.22
	2.19% INCR.	1.90% INCR.	4.79% INCR.	-(4.22%)- -(DECR.)-	28.80% INCR.	26.04% INCR.
1986	5,659,223	11,417,608	3,118,568	67,114	687,796.00	5,499,434.00
DIFFERENCE 1985	128,911	273,922	45,834	1,936	(92,137)	786,195.76
	2.33% INCR.	2.46% INCR.	1.50% INCR.	3.0% INCR.	(1.18%) DECR.	16.68% INCR.

I

INDUSTRIAL PACKAGING SYSTEMS
1604 Price Rd. • P.O. Box 5793 • Brownsville, TX 78520 • (512) 546-7034

Honorable Senator Lloyd Bentsen, Ladies and Gentlemen:

My name is BEN CHAMPION. I am a representative of INDUSTRIAL PACKAGING SYSTEMS, a Brownsville - based Valley business.

The Valley and State have benefited greatly from the Maquiladora (Twin Plant) concept. It has stimulated our depressed economy by creating local jobs and boosting local businesses which are directly and indirectly a result of this concept. As an example, for every major Twin Plant that moves into our area several sub-contracting companies follow creating more jobs.

Before the concept of the Twin Plants was implemented, the Valley suffered several economic setbacks which included but not limited to the freeze that devastated the citrus industry and the peso devaluation of recent years. The Maquiladoras (Twin Plants) have created new markets affording local businesses such as ours as well as other Valley businesses the opportunity to operate successfully and to be considered a permanent asset to this concept.

Ben A. Champion

M

24 HOUR SERVICE

Marks and Rodriguez Delivery Service

P. O. BOX 3493 o INTERNATIONAL AIRPORT o PHONE 512/ 541-4601
BROWNSVILLE, TEXAS 78520

February 10, 1987

TO: Senator Lloyd Bentsen
FROM: Mr. Charles Brown
RE: Maquiladoras of The Rio Grande Valley area

Senator Bentsen,

It has come to my attention that the importance of the maquiladoras of our area is in question.

I am writing to you in testiment of their importance. We, in the Valley, depend so heavily on their business, it is not difficult to realize the economic disaster which would befall us, should these companies decide to relocate.

Being a long time resident and businessman of the Valley, I can greatly respect the importance of the maquiladoras, and am compelled to stress the fact for your benefit.

It seems we (in the Valley) are always struggling to become a profitable community to the state, rather than an economic uncertainty. The maquiladoras gave us a "shot-in-the-arm", so to speak. Our citrus industries were failing,we lost several large companies, our shrimping industry declined, and the peso devaluation caused tremendous problems on Valley businesses of all kinds. These maquiladoras supply needed jobs and industry motivation, and I hate to think where the Valley would be without them.

We can surely use your support.

Thank you,

C M Brown

Mr. Charles Brown
Owner, Marks & Rodriguez
635 S. Minnesota
Brownsville, TX 78520

cb

STATEMENT FOR HEARINGS ON MANAGEMENT OF THE
U. S. CUSTOMS SERVICE TO BE HELD BY THE UNITED STATES SENATE
COMMITTEE ON FINANCE, BROWNSVILLE AND LAREDO, TEXAS
FEBRUARY 11, 1987, AND WASHINGTON, D. C., FEBRUARY 25 AND 26, 1987

Statement presented by: Mr. Dennis E. Nixon
President and Chief Executive Officer
International Bank of Commerce
Laredo, Texas

Mr. Chairman and Members of the Finance Committee:

Changes in certain policies and procedures by the United States Customs Service are necessary for badly needed economic development in my community: Laredo, Texas. First, I shall briefly describe some of the worrisome conditions of Laredo and then I shall explain my recommendations for changes related to U. S. Customs.

Laredo

Laredo is a chronically distressed community. Thirty-three percent of Laredo's estimated 1986 population of 108,700 is using food stamps. According to the 1980 census, 35.5% of Laredo's population was living below the poverty guideline while the related figure for Texas was 14.3%. This situation is certainly no better in Laredo today with the current unemployment rate of 16.5%, compared to the unemployment rate of 9.6%

for Texas, U. S. 6.7%.

Almost four percent of Laredo's population suffers from diabetes while for Texas and the United States the related percentages are 1.7 and 1.8, respectively. The incidences of tuberculosis and gastro-intestinal diseases in Laredo are greater by three and three and one-half times, respectively, than those for the state.

Levels of educational achievement in Laredo, from top to bottom, are substandard. Only fifty percent of students graduating from Laredo State University as education majors could pass the most recent state mandated test for teacher certification, while throughout the state eighty percent of those who took the test passed. Students wishing to become education majors at Laredo state University had the following passing percentages in the recent state mandated Pre-Professional Skills Test: reading, 34% (state average, 61%), writing, 48% (state average, 76%), mathematics, 38% (state average, 73%).

The average reading ability of high school graduates entering Laredo Junior College is at the eighth grade level. Average composite scores for ACT examinations, which are given nationally to high school students who are usually in their senior year are: 11.7 for the Laredo Independent School District, compared to 17.1 for the nation. The national

average ACT score for students who are going to enter college is about 21.

Recommendations

A. Operation of the Bridges

The economy of Laredo has depended principally upon the city's location with respect to Mexico; and the one rail and two vehicular bridges that span the Rio Grande at Laredo provide basic life lines for this economy. Proper management systems are required of the U. S. Customs and U. S. Immigration and Naturalization Services for the needed expeditious flow of legal commerce and tourists across these bridges. Related changes to be considered are the following.

1. Centralized management of primary inspection.

Presently there exists an agreement whereby U.S. Immigration and U. S. Customs are to provide equal numbers of personnel each shift for servicing the primary inspection of vehicles and pedestrians entering the United States at Laredo and at other ports.

Oftentimes this staffing is not done equally with U. S. Immigration providing the larger share.

Although at primary inspection the functions are the same for all inspectors, these inspectors are directed by two different chiefs who may or may not agree between themselves on the allocation of their respective personnel and on other matters.

There should be one chief inspector for each shift for all primary inspection personnel. It is not feasible that this job be rotated on a monthly or yearly basis between the two services because each service operates with different unions, different goals, and different emphases on the methods that they employ for inspection.

Therefore, it would seem advisable to make the U.S. Immigration Service responsible for all primary inspections with an increase in the necessary staffing while the U. S. Customs Service could correspondingly reduce its inspection personnel but continue to concentrate on secondary inspection.

2. Equal Pay for Equal Work.

In primary inspection there are often marked pay differences between Customs and Immigration for their inspectors who are performing the same type of work. For example, in Laredo, first line supervisors are G.S.-12,s for Customs and G.S.-11,s for Immigration. Custom has a number of non-supervisory inspectors at the ranks of G.S.-11 while for Immigration non-supervisory inspectors are G.S.-9 or below.

These pay differences adversely influence morale. This problem could be solved by equalizing pay or making Immigration solely responsible for primary inspections, as recommended above.

3. Improved Management by Allocation of inspectors according to traffic flow with changes in the pay rules.

Serious traffic congestions frequently occur on the vehiculr bridges during Sundays and holidays. These congestions arise because of understaffing of inspectors due to budgetary limitations imposed by present pay rules. These rules result from now outdated legislation, 1911 for Customs, and 1931 and 1945 for Immigration. This old legislation greatly inhibits the employment of modern day management techniques and restricts management flexibility.

For non-overtime work on Sundays and holidays the pay rate is double the regular rate. For overtime work that begins after 7 p.m. there is a rollback provision that provides pay for two additional hours which are not worked in addition to time and one-half. Thus if an inspector starts on over-time at 7:30 p.m. and works for one-half hour, that inspector is paid according to the present system for one-half day's work up to the rate of pay that is earned by a GS-10, Step 1.

The pay system should be adjusted so that a forty hour work week can be assigned over a seven day week, and thereby reduce the tendency for use of overtime. If this rule change is made, there can be an increased use of inspectors by 15 to 20% for the same budget according to Mr. Steve Martin, Commissioner of U.S. Immigration for the Southern Region.

This change together with possible reduced requirements for overtime payments would provide much greater flexibility than currently exists for the scheduling of personnel in conformity with the traffic flows, to create the opportunity for a much better managed port.

4. Large easily readable organization and number badges to be worn by inspectors.

Presently, many people cannot distinguish readily between the uniforms and insignia of the U.S. Customs and U.S. Immigration inspectors at primary inspection. Immigration inspectors wear badges with their names while Customs inspectors wear badges with small numbers.

The public should be able to identify easily those inspectors whose decisions and behavior the public might question. Some members of the public may be confused and/or feel intimiated at the time of such an incident and they

should believe that they can seek later recourse through identifying an inspector by his prominently displayed number and organization name.

Furthermore, when inspectors know that they are easily identifiable, they are likely to pay ever greater heed to the necessity for always being courteous and correct when dealing with the public, creating a better opportunity for accountability.

5. Express lane for Frequent Trustworthy Users.

A vehicular express lane could be made available for speeding the flow of people who make frequent entries into the United States and who upon application are judged trustworthy and deserving.

Such a person would have a special placard for display in the window of his vehicle when he is the sole occupant or is accompanied by someone else with his own placard.

There could be random checks of these people who are allowed to use the express lane to ascertain that no laws are being violated. This system would work in similar fashion to the "green line" method that is employed by customs in various countries.

B. Stimulation of the Mexican Assembly Program

The economic and resulting political and social problems in Mexico directly impact the welfare of the United States and particularly the southern border region. United States government policies should be designed to assist economic development in Mexico in ways that will also benefit the United States economically and socially.

Mexico's Assembly Program currently employs about 250,000 workers and provides that country with approximately $1.8 billion in income. According to government data this makes the assembly program Mexico's second largest supplier of foreign exchange after petroleum exports, but ahead of tourism. Approximately eighty percent of this activity occurs in or near the Mexican cities that border the United States.

Unlike the thirty-three other developing countries where similar assembly activity takes place, many positive economic effects from Mexico's Assembly Program flow directly across the border to provide major benefit to the neighboring United States cities. Some of these U.S. border cities, such as Laredo, are the poorest in the United States and the incomes of many of their people depend importantly upon providing a wide range of support services for the assembly plants and upon the spending of the assembly workers.

Of prime importance for the success and expansion of Mexico's Assembly Program is retention of U.S. tariff items 806.30 and 807, if U.S. import duty continues to be assessed on assembled products.

The complementary benefits to the United States from employment of these tariff items are not derived equally from all of the countries that are exporting their assembled products to the United States.

For all such assembled products entering the United States only 19% of the total value in 1985 consisted of United States made components. In sharp contrast, 54% of the total value of assembled products from Mexico was composed of United States components. This is because sources of supply in the United States are much closer to Mexico. Assemblers in Korea, Taiwain, Singapore, and Hong Kong, etc., prefer to use local sourcing because of transportation and other cost differences to the disadvantage of potential U.S. suppliers.

Therefore, because of the direct economic benefits to the southern U.S. border region and to U.S. component suppliers, U. S. Government policies should be focused on giving special help to Mexico's Assembly Program. This objective can be accomplished in one or more of the five following ways, in order of preference:

1. Grant duty free entry for products that are assembled in Mexico within twenty-six kilometers of the U.S. border.

or 2. Grant duty free entry to assembled products that contain over fifty percent United States value.

or 3. Grant G.S. P. treatment to the values of assembled products in Mexico, with yearly quota levels being set according to product categories.

or 4. Allocate use of U.S. tariff items 806.20, 806.30 and 807 by country quotas, giving Mexico a major share of the total amount under quota.

or 5. Increase tariffs on imported assembly products.

All of these policies should favor Mexico's Assembly Program as the resulting cost advantages would cause a shift in assembly activity away from other countries toward Mexico.

C. Establish an economic development zone for Laredo and the Rio Grande Valley border area which would provide special incentives for locating industry there through government:

1) tax incentives, such as accelerated depreciation allowances and tax holidays and/or rate reductions, 2) worker training programs, and 3) procurement incentives.

The advantages of this zone would augment the U.S. border cities; activities associated with servicing Mexico's Assembly Program.

D. Laredo as a Free Port

A great opportunity for the economic development of Laredo would occur, without additional cost to the United States Government if Laredo would be designated a free port.

A free port is a prescribed area within which there is total exemption of customs and other control on merchandise. Merchandise may freely enter, be stored indefinitely, be processed or changed in character and be sent outside the country--all without government quotas, import duties, or other taxes being applied. Only when foreign merchandise is passed from the free port into the regular commerce of the country does that merchandise become subjct to the related laws that are enforced by customs and other government agencies. This process would greatly enhance Mexico's Assembly Program by providing free flow between the countries.

Laredo is ideally situated to be a free port. Laredo is geographically isolated from other population centers of the United States and is connected to the rest of Texas by only a few roads that extend for long distances through unpopulated areas.

In addition, Laredo's commercial infra structure compliments the free port because of its vast resources in freight handling warehousing and distribution systems and people. Government check points for the free port of Laredo would be removed from their present positions at the congested bridges to these roads outside the city where the traffic is much less. For example, in 1982, vehicular traffic between Laredo and Mexico across the bridges was 2.4 times greater than between Laredo and the rest of Texas. The relocation of check points for Laredo would have represented in 1982 an average daily reduction of 8,750 vehicular inspections and elimination of average daily inspection of almost 8,000 pedestrians.

Therefore, Laredo as a free port would permit reduced and more efficient staffing for the government and greatly encourage the flow of traffic into and out of the city. Use of inexpensive trailers could serve as offices and shelter for the inspectors at the relocated check points. Customs inspection at the Laredo airport would be conducted only for those planes that would leave Laredo for destinations in the United States.

Inside the free port of Laredo all federal and state labor laws would apply as would Social Security and federal income tax laws. Enhancement of the concept of the

free port of Laredo would result from relocating U.S. Immigration inspection to the new check points for U.S. Customs. Thus there would be complete freedom of entry into Laredo for people as well as commodities.

As a free port, Laredo would become an important center for cargo storage and distribution and for manufacturing. In addition, tourism to Laredo would receive a tremendous impetus as people from the rest of the United States and Mexico would come to shop in this duty free city. These shoppers would be able to return home with the usual exemptions on dutiable merchandise purchased aboard. Rather than force a U. S. shopper to travel to foreign countries in order to obtain the U.S. import tax exemption of up to $400, which is renewable after 30 days, it would seem much more beneficial to the United States to allow the economically depressed city of Laredo, with its ideal conditions for control, to become a free port.

One can envisage the free port of Laredo, through private enterprise, becoming a small replica of Hong Kong--with development of extensive retail activities and related entertainment and other tourist facilities. Thus Laredo's traditional economic dependence on Mexico could be greatly reduced.

The United States Government has long provided

free port type status for its insular possessions such as the Virgin Islands, Guam, and American Samoa. Now is the time for Laredo.

PARKER & CO.
US CUSTOMS BROKER
OCEAN FREIGHT FORWARDER

U.S. • Europe • Far East • Mexico

February 9, 1987

Senator Lloyd Bentson
Senate Finance Committee
Washington, D. C.

Dear Senator Bentson & Finance Committee Members:

I am hereby providing this testimony in regards to proposed cutbacks in commercial operations due to consolidation and centralization of operations.

I would first like to state I am fully behind the administrations efforts to curb the flow of drugs into the U. S., but we feel like this should not be at the expense of the legitimate importing and exporting public. The commercial operations of the U. S. Customs Service play an important role in the Brownsville economy.

I would like to draw attention to the series of fees that were implemented in 1986:

The first fee implemented was called a user fee:

$5.00 for commercial vehicles empty or loaded, $100.00 annually, $397.00 per ocean vessel, $5.00 per passenger arriving from foreign countries.

The second fee implemented was the merchandise processing fee:

.22% of the value of merchandise entered into the U. S.

With the implementation of the fees a sufficient amount of money should be flowing to Customs or treasury budgets to justify what we believe to be a needed increase

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in Customs budgets specially classification and valuation areas of commercial operations in Brownsville.

I currently am participating in the automated side with Customs via automated broker interface, and will continue to participate in automated processing of cargo but still believe that there must be sufficient staffing in the commercial areas to handle the parts of cargo entry and release that cannot be automated.

I feel in Brownsville we are under manned in commercial area and feel we could not take any further cuts in our commercial operations.

I feel the revenues produced from the processing fees more than justify no decreases in commercial operations.

If the United States is to become a major competitor in the world economy it must have sufficient infrastruture in the U. S. Customs Service. We must import the essential raw materials and products to make our products and export them with lowest costs of materials, production, and entry and export expenses.

I feel an under manned Customs Service would add not only time to entrance and clearance of cargos but also costs.

I feel Brownsville is growing and can continue to grow as a competitive port in the world market, but that success also depends on the support the government has given us in the past and I must protest any cuts in the Customs Service commercial operations in the future.

Very truly yours,

Frank Parker Jr.

Frank Parker, Jr.
President

FP/rp

R

TESTIMONY OF AL ROSER TO SENATE FINANCE COMMITTEE

SEN LLOYD BENTSEN, CHAIRMAN

HEARING HELD AT TSC, EIDMAN I LECTURE HALL, BROWNSVILLE TX ON FEB 11/87

THE ADMINISTRATION'S PROPOSAL TO SLASH MORE THAN $27 MILLION FROM U.S. CUSTOMS SALARIES AND EXPENSES IN THE 1988 BUDGET WILL HAVE A STRONG NEGATIVE EFFECT ON THE SERVICE'S COMMERCIAL OPERATIONS AT THE BROWNSVILLE PORT OF ENTRY, AND WILL ALSO HAVE AN ADVERSE IMPACT ON THIS CITY'S AND MATAMOROS, MEXICO ECONOMIES.

OUR ROLE AS A U.S. CUSTOMS BROKER IS TO TIMELY TENDER CORRECT CUSTOMS DOCUMENTATION AND TO DISPATCH THE ASSOCIATED IMPORTED GOODS IN COORDINATION WITH ASSIGNED CUSTOMS OFFICERS. I PERCEIVE SUCH A MASSIVE BUDGET CUT WILL MEAN A SHORTAGE OF CUSTOMS OFFICERS NECESSARY TO EXAMINE AND RELEASE AIRCRAFT, TRUCK, RAIL AND VESSEL COMMERCIAL IMPORTATIONS TO ENSURE THE EFFICIENT FLOW OF INTERNATIONAL TRAFFIC THROUGH BROWNSVILLE.

THE VAST MAJORITY OF IMPORTED ARTICLES ARRIVE IN BROWNSVILLE VIA TRUCKS AS OPPOSED TO OTHER MODES OF TRANSPORTATION, AND PRIMARILY FROM MATAMOROS, MEXICO. BOTH MEXICAN MAQUILADORA AND NON-MAQUILADORA IMPORTERS CONSTANTLY STRIVE FOR "JUST IN TIME" DELIVERY OF THEIR PRODUCTS. THIS MEANS IMPORTED PRODUCTS MUST LEAVE OUR BORDER CITY FOR U.S. OR FOREIGN DESTINATIONS ON THE SAME DATE THEY ARRIVE FROM MATAMOROS. SHORTAGE OF CUSTOMS PERSONNEL AT THE TWO TRUCK CUSTOMS IMPORT LOTS (GATEWAY AND B&M BRIDGES) WILL INHIBIT THIS "JUST IN TIME" DELIVERY CONCEPT THAT IS URGENT FOR THE AMERICAN IMPORTERS.

THE REDUCTON OF CUSTOMS PERSONNEL WILL ALSO NEGATIVELY AFFECT THE PORT BROWNSVILLE FOREIGN TRADE ZONE (FTZ). AFTER FIVE YEARS IN OPERATION, IT IS FINALLY GROWING AS A RESULT OF MORE TWIN PLANT AND MATAMOROS MAQUILADORA OPERATORS UTILIZING IT. THE CONSEQUENT RISE IN PRIVATE INDUSTRY JOBS AND PAYROLLS IN THE FTZ ADDS IMPORTANTLY TO THE ECONOMY OF THE BROWNSVILLE/MATAMOROS AREAS. SPEEDY ADMISSION INTO AND WITHDRAWAL FROM THE ZONE DEMANDS ADEQUATE CUSTOMS OFFICER STAFFING. THIS IS IMPERATIVE FOR THE TRADE ZONE TENANTS TO PRACTICE "JUST IN TIME" DELIVERY-IN THIS INSTANCE,

RAPID TRUCK DELIVERY OF THEIR COMPONENTS TO THEIR BROWNSVILLE AND MATAMOROS PLANTS.

THE PROPOSED CUSTOMS BUDGET REDUCTION WILL ALSO BRING ABOUT CUTS IN EXPENSES OTHER THAN SALARIES OF CUSTOMS OFFICER ASSIGNED TO COMMERCIAL OPERATIONS. AS A CASE IN POINT, BOTH BROWNSVILLE INTERNATIONAL BRIDGES (GATEWAY & B&M) CUSTOMS IMPORT LOTS ALREADY HAVE DEFICIENT OFFICE AND INSPECTION FACILITIES TO QUICKLY INSPECT AND RELEASE THE INCOMING DAILY TRUCK CARGO MOVEMENTS. ANTICIPATED GROWTH OF MAQUILADORA OPERATIONS AS WELL AS MEXICO'S PHASE-IN OF GATT (GENERAL AGREEMENT OF TARIFFS AND TRADE) WILL INDUCE MORE INTERNATIONAL TRADE BETWEEN THE U.S. AND MEXICO. THIS TRANSLATES INTO FURTHER STRAIN ON THE THE CURRENT PHYSICAL CAPACITIES AT BOTH BRIDGES IMPORT AREAS. LACK OF FEDERAL FUNDS FOR THEIR EXPANSION WILL EXACERBATE THE TRUCK FLOW BOTTLENECKS ALREADY ENCOUNTERED.

THE BOTTOM LINE IS THAT THE AFOREMENTIONED CONTEMPLATED '88 BUDGET CUT WILL NOT ONLY UNFAVORABLY AFFECT BROWNSVILLE'S EFFICIENT FLOW OF INTERNATIONAL COMMERCIAL TRAFFIC. BUT IT WILL ALSO TRIGGER OTHER NEGATIVE DOMINOE EFFECTS: IT WILL NOT BE IN THE ECONOMIC INTEREST OF BROWNSVILLE AND MATAMOROS DUE TO THE REDUCTION IN CUSTOMS PERSONNEL PAYROLL; IT WILL RETARD OR ARREST THE GROWTH OF LOCAL FOREIGN COMMERCE PERIPHERAL PRIVATE INDUSTRIES THAT RENDER GOODS AND SERVICES (BANKS, CUSTOMS BROKERS, FREIGHT FORWARDERS, TRUCK AND RAIL CARRIERS, RETAIL STORES); AND EXTREMELY IMPORTANT, IT WILL CAUSE A DROP-OFF OF THE US CUSTOMS SERVICE CAPABILITY TO PROPERLY ENFORCE THE CUSTOMS LAWS AND REGULATIONS RELATING TO COMMERCIAL INTERNATIONAL TRAFFIC WHICH IS NECESSARY TO PROTECT THE DUTY REVENUE.

AL ROSER, PRESIDENT TEL (512) 546-5544
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SEKO
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ACCOUNTING 1-800-323-8516

February 10, 1987

Honorable Lloyd Bentsen
United States Senate
703 Senate House Office Building
Washington, D.C. 20510

Dear Sir:

I am submitting this letter to you for your personal consideration.

In regard to the importance of the maquiladoras of our area, I can say with grave sincerity, that my company could not survive without the monetary benefits they provide.

I am the owner of the Seko Air Freight offices of Brownsville and McAllen, and began my business in November of 1983. I have pulled my business out of economic difficulty before, so I speak from experience when I tell you I would not be able to do it again. The maquiladoras supply approximately 80% of my business. I'm sure, from your extensive political experience, you can recognize the volatile situation the Rio Grande Valley economy is in, and realize the tremendous asset-if not necessity-these companies are to us. I, myself, cannot stress their importance enough.

Your time in considering the gravity of the situation is greatly appreciated.

Sincerest Regards,

Evan J. Stull
Owner, Seko Air Freight
275 King's Hwy. Ste. 118
Brownsville, Tex. 78520

vll

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February 10, 1987

UNITED STATES SENATE COMMITTEE ON FINANCE
SD-205 DIRKSEN SENATE OFFICE BUILDING
WASHINGTON, D.C. 02510

REFERENCE: ROLE OF THE U.S. CUSTOM SERVICE ON THE ECONOMIC DEVELOPMENT OF THE BORDER AREA

Dear Senator Bentsen,

This paper will attempt to express the effect of a reduction of U.S. Custom personnel on border economic development and in particular the Maquiladora.

At the present time there are fifty companies operating in Matamoros. The companies employ 25,000 people in Matamoros and 1,700 in Brownsville.

It is estimated that for each job, 1.84 additional jobs are created in the community so this would result in 46,000 additional jobs in Matamoros and 3,128 jobs in Brownsville.

We also know that a major portion of the wages paid in Matamoros return to Brownsville with the purchase of food, clothing and supplies in Brownsville. The jobs created in Brownsville are in the area of transportation, custom brokers, packaging materials, pallets, tools and dies, office furniture and supplies, machinery replacement parts, factory supplies, data processing and accounting services, legal services, hotel and restaurant services for customers and suppliers and other necessary services for the personnel themselves.

As the numbers of border plants has expanded, the quality of life of the border cities has expanded also. The demand for reliable utilities by the industries and the plans to promote more industry by the city has resulted almost in the elimination of annoying power outages and better communication systems in the city. These improvements benefit all the citizens of Brownsville.

The U. S. customs service has a vital role to play in the economic development of the border. If the service is inferior, this results in inefficient utilization of time in shipments of materials and wasted time by personnel crossing the border between Matamoros and Brownsville.

It also results in an adversarial relationship between customs and the companies. This we do not need as the

worldwide competitive forces demand that U.S. industry be efficient and produce world class products.

All U.S. managers' energies should be devoted to product and employee improvement and not on inefficient processes that they have little or no control over.

At the present time there are two bridges between Matamoros and Brownsville. The congestion on these bridges is hard to describe because of both the Mexican and U.S. tourists, the truck traffic to the Port of Brownsville and the truck traffic to the Maquiladora plants or warehouses on the U.S. side. Crossing time can be from one hour to one and one half hours during the day.

The present situation is not conducive to the promotion of tourism or industry in this area.

The problem could be alleviated by the addition of more personnel to man the primary lanes and to do all car and truck inspections in the secondary lanes.

If the custom service is reduced and the manning on the primary lane is reduced, the bridge situation will be aggravated. If one primary lane is eliminated on the county bridge, the crossing time will be increased to two hours or more.

The situation is non productive now but will only become worse by a reduction in custom personnel.

If the situation in Brownsville becomes worse, it will be extremely difficult to convince someone to locate a plant in an area where the manager, other personnel and visitors have to spend one to two hours parked on a bridge.

There are times when you sit in traffic with the other 200 or so cars and trucks and reflect on the pollution, waste of time and waste of energy caused by the system that we have to deal with. We have learned to accept part of this as doing busines on the border. We fear that the border will be left behind if it does not become more efficient in all aspects of the business process.

Another area of concern to the Maquiladora program in Brownsville is the potential reduction in the consultation service performed by the custom import specialist. New companies coming to Brownsville must go to Laredo to obtain classification and valuation advise. This puts Brownsville in a pass position initially to obtain new jobs for the area.

As the companies expand their operations in Brownsville and Matamoros, the import specialist's activities will expand and there will be less time for consulation services. There is a strong possibility that due to the lack of contact with the import specialist a detail in a cost summary will be overlooked and a custom audit will result in fines, penalties or worse yet a conviction of fraud.

If the import specialist position is eliminated in Brownsville, all matters pertaining to classification or valuation will have to be settled in Laredo. This will place companies in Brownsville at a disadvantage to those cities that have an import specialist.

I would like to take this opportunity to state that the custom service is doing a good job of clearing trucks through the customs yard once they cross the bridge. We do see a major problem developing in the custom yard, particularly when there is heavy truck traffic for the Port of Brownsville and the custom yard becomes blocked. This has backed up traffic on the bridge and compounds the normal bridge congestion problem. This problem is being addressed in more detail by another person at today's hearing.

I would like to thank you for your interest in the economic development of Brownsville and for the opportunity of testifying at this hearing.

William J. Hughes
General Manager
Sheller Globe Corporation

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JOHN H. KECK
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

Written Testimony

To the

United States Senate

Committee on Finance

The Honorable Lloyd Bentsen, Jr.

Chairman

Submitted by

John H. Keck

President and Chief Executive Officer

Union National Bank of Laredo

February 11, 1987

Mr. Chairman, I would very much like to express my sincere appreciation for this opportunity today to address your Committee. The elevated importance at this particular time of a coordinated, communicative approach to international trade issues has , as you gentlemen know very well, a direct and lasting impact on Laredo, as well as many other border communities.

The exhaustive, well-documented research report, The Impact of Increased U.S. - Mexico Trade on Southwest Border Development, which you released last December details very accurately the problems and perspectives of our unique economy in this region.

Rather, than repeat the conclusions or cover those areas already adequately detailed in your report, I would like to emphasize the significance of the In-Bond industry in the context of today's world economy.

Also, I would like to target the current beneficial results of the Maquiladoras on Laredo, some visible now and some just beginning to unfold.

When the In-Bond (Maquiladora) Industry program began in 1965, it was at a time when this nation did not have a huge trade deficit, and there was not as broad a concept of a global economy. West Texas crude oil was settled at a price all the oil producers could support and there was no existence of O.P.E.C. The Maquiladora was not initiated but rather grew in response to some very disassociated events in Mexico City and in Washington, D.C.

Mexico's leaders believed the program would assist their nation in its beginning trade and industrial development program. The intent of our U.S. Congress in revising the Tariff Schedules of the United States for favorable tariff treatment was to assist the program and thereby encourage growth in underdeveloped nations, certainly not out of any conspiracy to dismantle American industry.

The Maquiladora is a child born of necessity, adaptable for the U.S.-Mexico border and is exactly what it is said to be: a production sharing agreement between our Mexican neighbors with whom we share a 1,939 mile common border. Today with 88% of the operating plants located in border cities, the impact of the hundreds of thousands of employees is growing.

Within the international business community, some U.S. manufactured products have become the price leader. American automotive manufacturers, for example, have been and continue to seek methods of reducing the per unit cost by various methods, including centralization of production units.

Where possible all units for a manufacturer are made in a single plant for all the production models of that manufacturer.

Certainly, among the division of the various parts for many different companies and product lines, Mexico is not the single recipient of all of these plants. Division of labor, and attempts at cost reduction on many individual items have seen single unit production moved to Japan, Korea, Taiwan, and numerous other nations principally in the Pacific Rim. It is fortuitous that some of this Production Sharing may be at sites in our neighbor in Mexico assisting them, and ourselves, jointly in bringing some industry to the economically-deprived U.S.-Mexico border area, rather than disperse the entire plants in the far reaches of the world. It is important to recognize today that the Maquiladora is Mexico's second largest generator of Foreign income.

Drawing back to our community of Laredo, true economic diversification is not a viable option. We and all border communities are inextricably linked to Mexico and international trade. Our greatest asset of border retail trade became our greatest liability when the Mexican peso began collapse in 1982.

However we began to see new opportunities in development as an expanded export distribution center. Developing in this same period the Maquiladoras grew from six (6) in 1982 to nearly thirty (30) at present. The current genuine interest by American companies in establishing a twin-plant in our cities is growing at an accelerated pace.

The central industrial promoter of our community, The Laredo Development Foundation is steeped with viable prospects. The standard profile of the prospect is a generally healthy Central U.S./East Coast company seeking hard dollar cost savings and retaining access to the U.S. Market. Our geographic location in Laredo places us disadvantagely in some areas of service, but as a central distribution center for North/South freight, (rail, air, and highway) we are in an ideal vantage point.

Our greatest task is to coordinate marketing of our region's assets and improve public perception of our area's quality of life. This is in addition to educating people as to what a Maquiladora is and what it means to Laredo.

The only identifiable, tangible tool of economic development we in Laredo have today is the Maquiladora industry. Only by effectively developing this industry segment in Laredo, can we ever hope to accomplish a longer-range goal of attracting new supplier industries to locate in Laredo, Texas. These companies would build facilities in Laredo and thereby provide jobs and economic strength to our community. But, without the Maquiladora it is difficult to attract the suppliers.

Another important point to emphasize is the usage by the operating twin-plants of U.S. products in their assembly operations which would be lost without the program.

It is plain to see that I favor not only retention of the program but consider it vital to the border's hopes for economic revival. However, even with the program in effect, the Maquiladora operations need the coordination of U.S. Customs and Immigration personnel to insure its broad success. The explosive development of this industry on the U.S./Mexico border requires the proper staffing on the international bridges. U.S. Customs utilizing a fraction of the physical facilities at the bridge is a nightmare for any border promotion of the economic benefits of the Maquiladora program. The facilities must have proper staffing and these border international bridges must have priority.

That can only happen by top-down directives which give the bridges the attention they need and deserve.

We are told that the current problem of bridge delays and the frequent resulting long lines of trucks stems from installation of a new computer system of U.S. Customs and the insufficient number of personnel to deal with the amount of traffic.

However, it is serious to the extent that the plants in Nuevo Laredo are having to pay overtime to their drivers and now the shipments extend into Saturday because of the delays.

Other complaints have been so serious as to suggest that truckers from the interior of Mexico begin to use other ports of entry because Laredo is so congested and the U.S. Customs officials cannot move the traffic through the import lot, which is too small to handle the traffic.

This is a multi-faceted problem that needs addressing if the true benefits of the Maquiladora are to extend to the U.S./ Mexico border region.

Thank you for this opportunity to express my views on these vital areas of our community. Our financial institution will continue to promote the under-marketed benefits of the Maquiladora and hope it is here to stay as we know Laredo is. The economic tool of the Maquiladora is a unique program which provides both a benefit to our U.S./Mexico border region and Mexico's economic revival. Only coupled with a strong emphasis on U.S. Customs involvement can the program ever hope to achieve its full potential.

TESTIMONY OF:
SENATOR HECTOR URIBE

U.S. SENATE FINANCE COMMITTEE HEARING
FEBRUARY 11, 1987
BROWNSVILLE, TEXAS

I APPRECIATE THE OPPORTUNITY TO TESTIFY BEFORE THIS COMMITTEE REGARDING PROPOSED U.S. CUSTOMS BUDGET CUTS. I WANT TO THANK SENATOR BENTSEN FOR HOLDING THESE HEARINGS IN BROWNSVILLE AND LAREDO, AND GIVING THE BORDER COMMUNITY THE OPPORTUNITY TO DISCUSS THE POTENTIALLY DEVASTATING IMPACT OF SUCH CUTS. YOU ARE TO BE COMMENDED, SENATOR, FOR THE STAND YOU HAVE TAKEN AGAINST CURTAILMENT OF CUSTOMS SPENDING, AND I SHARE YOUR CONCERN.

THE BORDER IS A PLACE WHERE TWO GREAT COUNTRIES MEET, WHERE COMMERCE MINGLES AND WHERE CULTURES MESH. THE BORDER IS INEXTRICABLY INTERTWINED WITH MEXICO. AT A TIME WHEN TEXAS IS FACED WITH A $5.8 BILLION DEFICIT DILEMMA AND THE MEXICAN ECONOMY CONTINUES TO WORSEN, SUCH BUDGET CUTS COULD PROVE FATAL TO THE BORDER. THE REGION ALREADY SUFFERS UNDER THE STRAIN OF THE TWIN BLOWS OF AMERICAN INFLATION AND THE MEXICAN PESO DEVALUATION.

I'VE REPRESENTED THE RIO GRANDE VALLEY IN THE TEXAS LEGISLATURE FOR NINE YEARS. I'VE SPENT A GREAT DEAL OF TIME LISTENING TO THE VOICES OF THE VALLEY. I'VE LISTENED TO THE VOICE OF THE MAQUILADORA WORKERS WHO FEAR FOR THEIR JOBS. I'VE LISTENED TO THE SMALL BUSINESSMAN WHO CAN'T TRANSPORT HIS GOODS. I'VE LISTENED TO THE BORDER PATROL GUARDS WHO ARE OVERWORKED AND UNDERPAID. AND I'VE LISTENED TO THE ELDERLY WHO FEAR FOR THEIR LIVES.

LISTENING TO THE VOICES OF THE VALLEY, I'VE LEARNED A GREAT DEAL. I'VE LEARNED THAT THE PEOPLE OF THE REGION DON'T WANT THE IMPOSSIBLE. THEY WANT JOB OPPORTUNITIES THAT LET THEM REALIZE THEIR FULL POTENTIAL. THEY WANT TO BE ABLE TO CONDUCT BUSINESS AND HAVE ACCESS TO THE BORDER. THEY WANT STREETS THAT ARE SAFE.

THESE ARE NOT IMPOSSIBLE DREAMS, BUT THEY DEPEND ON THE PRIORITIES WE SET AND THE POLICIES WE ADOPT. THE SURVIVAL OF THE REGION DEPENDS ON THRIVING TRADE AND EASY ACCESS. OUR BRIDGES AND BORDER CROSSINGS ARE ALREADY BURSTING AT THE SEAMS. LACK OF ACCESS THWARTS COMMERCE, DETERS TOURISM AND PLACES AN EVEN HEAVIER BURDEN ON THE LOCAL ECONOMIES. WE CANNOT AFFORD, AT THIS TIME, TO ACCEPT OR ADOPT POLICIES WHICH BURY BUSINESS AND KILL COMMERCE. FEDERAL DOLLARS SPENT ON CUSTOMS PROGRAMS REAP GENEROUS RETURNS FOR THE FEDERAL TREASURY. FOR EVERY DOLLAR SPENT, THE GOVERNMENT GETS $17 BACK. THAT'S AN INCREDIBLY HIGH RATE OF RETURN, AND ONE WHICH THE ADMINISTRATION CANNOT AFFORD TO IGNORE.

WE ALSO CAN'T AFFORD TO CUT 2,000 JOBS IN THE NARCOTICS DIVISION. THE DEVASTATION OF SUCH A CUT IS TWO-FOLD. FIRST, IT ELIMINATES 2,000 MUCH NEEDED JOBS IN THE MOST ECONOMICALLY DISTRESSED REGION OF THE STATE. SECONDLY, IT BACKS OFF OF THE COMMITMENT TO INCREASED NARCOTICS CONTROL AND DECREASED CRIME. I'M NOT PROUD TO TELL YOU THAT THE REGION HAS RECEIVED NATIONWIDE ATTENTION FOR IT'S HIGH DRUG TRAFFICKING. UNFORTUNATELY, IT'S AN UNPLEASANT FACT OF LIFE, AND ONE WITH WHICH THIS ADMINISTRATION MUST DEAL. THE ADMINISTRATION TALKS TOUGH ABOUT FIGHTING CRIME AND DRUG ABUSE. WE'VE ADOPTED A NATIONAL ADVERTISING CAMPAIGN TO 'SAY NO TO DRUGS.' BUT WHEN IT COMES DOWN TO THE NITTY GRITTY, THAT'S ALL IT IS -- TALK.

TALK IS CHEAP. THE REASON WE ARE ALL HERE TODAY IS TO MAKE THE ADMINISTRATION LISTEN. TO LISTEN TO THE ECONOMIC REALITIES OF THE REGION. TO BRING TO LIFE THE IMPACT OF SUCH DEVASTATING CUTS. I THANK SENATOR BENTSEN FOR THE OPPORTUNITY TO SPEAK, BUT MORE IMPORTANTLY, I APPRECIATE THE FORUM FOR MAKING THE ADMINISTRATION LISTEN. SENATOR, I SUPPORT YOUR EFFORTS AND HOPE YOU WILL CALL ON ME ANY TIME I CAN BE OF ASSISTANCE.

V

TESTIMONY OF SAMUEL FRANKLIN VALE IN THE
SENATE FINANCE COMMITTEE HEARINGS
U. S. CUSTOMS ROLE IN THE ECONOMIC DEVELOPMENT OF THE BORDER AREA

Mr. Chairman and members of the Committee, my name is Samuel Franklin Vale, I am here testifying as president of the Mexico-Texas Bridge Owners Association. We represent all non-federally owned border crossing points, including all of the principal commercial ports of entry along the Mexico-Texas border. I am sure you will hear many comments during the course of these hearings on how trade and commerce can be improved along the Mexico-Texas border. We urge you to remember that regardless of what incentives may exist today or in the future to encourage additional international trade with Mexico and hopefully improve life along the border, all of this will depend upon a fluid flow of vehicles across the international boundary joining our two countries. When addressing the Texas border, these vehicles must cross through an international bridge port. We, in the Bridge Owners Association, confidently assure you that the most important item required to insure cost-effective expansion of trade with Mexico and therefore improve the quality of life along the border, is to establish a clear policy on the role the United States federal agencies play in the economic development of the border area. While the announced purpose of these hearings is to investigate the role U. S. Customs plays in this process, we would like to point out that they are only part of the staffing at the international bridges. The problem we experience today is that there is no system in place that provides for input into the federal agencies so that they may adequately respond to the needs of international trade and commerce with proper staffing at the international bridges.

The inspectors at the ports of entry enforce a host of federal laws which involves levying customs duties, intercepting dangerous narcotics, processing immigration and visitation permits, returning undocumented aliens, and destroying infested and diseased plants and animals. These activities are performed by three federal agencies: The U. S. Customs Service, which is part of the Treasury Department, the U. S. Immigration and Naturalization Service, which is part of the Justice Department, and the Animal and Plant Health Inspection Service, which is part of the U. S. Department of Agriculture. Customs and Immigration inspectors perform most of the inspections at the booth controlling entry into the U. S. which is called "primary inspection." Passenger vehicles passing out of primary inspection are either referred to secondary inspection or waived through the inspection complex. At secondary inspection, vehicles and luggage are searched and/or entry documents are obtained or certified.

Trucks clearing imported commodities are sent to the import lot where primary inspection takes place and where documents are reviewed and cargo searched in preparation for entry into the United States. Agriculture inspectors sample agricultural commodities from import trucks and at times aid in primary and secondary inspection.

Most of the vehicles enter the U. S. during peak periods which vary depending upon the time of day, the day of the week, the occurrence of holidays, the season of the year and other events. During the peak periods, most vehicles pass through only primary inspection and are waived by secondary inspection. Usually, primary inspection consists of viewing identification, asking a broad question concerning any item purchased in Mexico, scanning the vehicle's interior for plants, food or other controlled items. All of this takes place in approximately 10 to 30 seconds. It seems highly unlikely that regardless of the efficiency measures that could be implemented to curve federal expenditures, we can further reduce the time for primary inspection under the present legal mandates and state of technology. Therefore, within this short time period, inspectors must determine if there is sufficient risk of the vehicle containing dangerous narcotics, illegal aliens, or damaging plant pests and diseases. There is a limit to the number of cars an inspector can process per hour, and as traffic flows increase, there are only two alternatives. The inspector either fails to fully inspect a vehicle, or he does his job and lets traffic back up. This activity must take place 365 days a year regardless of the conditions. Customs and Immigration officers must endure inclement weather, an accelerated work pace, toxic vehicle exhaust fumes and hostile motorists irritated by traffic delays.

Successful economic development of border communities is contingent upon alleviation of traffic congestions at local international bridges. The most direct and efficient method for easing traffic congestion is for U. S. Customs and the Immigration and Naturalization Services to increase manning levels for primary inspection agents. If Customs and INS manning levels are not increased sufficiently to meet demands, the success of the Texas border communities' economic development plans are severely jeopardized.

During the course of the last 18 months, there has been a significant increase in the traffic slow downs experienced at international bridges. A sig-

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nificant part of this is caused by the emphasis on protecting the southwest border from interdiction of narcotics and other contraband as the success of recent enforcement practices take effect in the Florida gulfcoast area. We recognize and totally support this effort. However, it should be noted that the interest of legitimate trade and commerce do not conflict with the interest of the United States in protecting its borders from interdiction of illegal materials. We compliment the Customs and Immigration Services for the significant increase in seizures along the southwest border during the past 18 months of "Operation Alliance."

The Bridge Owners Association recognizing the dilemma the current mandates placed on federal agencies at the international bridge points of entry decided last fall to seek a meeting with Immigration and Naturalization Service Commissioner Alan C. Nelson and Customs Commissioner William von Raab. It was our hope to sit down with the heads of both of these agencies and jointly discuss the legitimate interest of commerce and trade and how it could co-exist with the mandated increase in surveillance and security along the southwest border. We traveled to Washington, D. C. last October and met separately with Commissioner Nelson and Commissioner von Raab. During the course of these meetings, it became apparent that each federal service did not wish to take any of the blame for the problems along the border and chose to point the finger at the other. While this we assume is only natural, it is not appropriate for federal agencies who both work for the taxpayers to fail to coordinate their practices and staffing levels at the international bridges along the Mexico-Texas border. This turfism and lack of a coordinated staffing program between the federal agencies reduces the ability to get the maximum results from the existing personnel. At the primary level, both principal federal agencies share responsibility and receive cross-training. However, after that, cooperation comes to a stand still. The respective federal agencies would have us believe that due to the high degree of specialization and expertise required for proper secondary inspection and processing, interagency cooperation between Customs and INS at this level is impossible. We disagree. We do recognize that there are certain specialized functions that cannot be properly cross-trained. But by enlarge, a secondary inspection involves a more detailed search of the vehicle for contraband and processing of documents for people entering the U. S. We feel that the level of education is sufficient in both services to provide cross-training for the over-

whelming majority of secondary level work. By this we mean that it is not impossible for an immigration officer to search someone's luggage to properly determine if the goods therein are acceptable for entry into the U. S. Similarly, Customs officers can verify simple immigration entry documents and process them.

It would appear that there should be some sort of a joint chain of command established for service at the border ports. At the present time, there is no one manager or director at the ports of entry that has the authority to give instructions to all federal personnel on the premises. Should a problem develop, Immigration must go up its chain of command and Customs up its chain of command, to receive responses to situations that present themselves at the bridges. This is time consuming and wastes many valuable man hours. Historically, only 30% of the inspectors assigned to the U. S. Customs and Immigration Services are on the primary lanes, with the balance doing other work.

Following our meeting in Washington, we agreed to get together at a border community to discuss in more detail some of the complaints of the Bridge Owners Association. In December of 1986, we met at a conference in El Paso, Texas, hosted by their Foreign Trade Zone Association. We had representatives of Immigration and Customs from the Washington level all they way down to the district level. At this meeting, many positive results came out that reveal that we could improve the use of existing personnel at the bridges. However, in the final analysis, it became abundantly clear that there was no substitute available for additional federal primary inspectors. In this regard, we urged the federal services to recruit from the southwest border region in the hope that this would reduce the exceedingly high turnover rate experienced at the international bridges. Often, when customs inspectors are hired, they are willing to go to places like the southwest border but immediately begin the process of seeking transfers to other ports of entry closer to their homes.

Regarding commercial shipments which present a significant concern, legitimately so, to the U. S. Customs Service, there have been several recommendations that have developed jointly with the U. S. Customs and the private sector users of the facilities. Among the most important ones are the following: Work out agreements with importers/exporters to best thwart conspiracies utilizing transportation conveyances (tankers, trucks, etc.):

- ° Use a steady pool of drivers known to Customs. (A truck diven by an unknown driver will be an automatic intensive inspection)
- ° Require all truck drivers to apply for Customs ID card. Background checks can be initiated and felony drivers disallowed.
- ° Work with Mexican Customs to resolve truck clearance issues to provide a steady flow of trucks rather than large numbers of trucks all at once.
- ° Provide aisles in cargo sections for inspector access, where possible.
- ° Voluntarily provide Customs with information on their commercial operations in Mexico and on their employees.
- ° Arrange to provide security and tight controls over their equipment and merchandise in Mexico to prevent illicit introduction of contraband in their shipments or the trucks themselves;

Work closely with Customs to promote "paperless" automated processes that facilitate cargo movements and enhance enforcement including the line release program (now awaiting importer applications); Where possible, have bulk shipments transfer loads on Customs lots, e.g., asphalt, liquor, etc.; Work to secure devanning stations that are state of the art in equipment and expertise requirements. This should facilitate cargo movements and support Customs enforcement mission on cargo designated for intensive exams; Support short term and long term facility improvements, import modifications, bridge/road modifications, new construction, etc.

Of the above suggestions, we feel that one of the most important would be to construct and operate the devanning stations that could provide for quick and easy access for inspections and prompt clearance of cargos.

In January 26 of this year, pursuant to an invitation from Lic. Jose Scali Garcia, Director General of Mexican Customs, a 28 man delegation from the Texas border region, accompanied by representatives of U. S. Customs and Immigration, traveled to Mexico City to participate in a conference titled "Modernization of the Mexican Customs System at the International Bridges." At this conference, it was stressed by all members of the U. S. delegation that our laws on illegal narcotics would be enforced but that we would seek every effort to improve the ability of commerce and trade to get across these bridges joining our two countries. Of the many issues discussed, the Mexicans seemed the most interested in reinstituting efforts to develop joint clearance procedures at the international bridges for commercial transactions. This was not a new initiative as it had been attempted prior to the death of a U. S. DEA agent in Guadalajara,

Mexico. The program abruptly came to an end because of the security concerns expressed at that time as well as the general belief by the Customs Service along the border that they were not getting the necessary cooperation from the Mexican government. Lic. Scali Garcia has recently been appointed as Director General for Mexican Customs and has been ordered by the Secretary of Treasury to improve the efficiency of the system at the international bridges. We feel that past failures should not prevent the U. S. Customs Service from fully exploring the potentials of cooperation with their Mexican counterparts. It would appear that at this point in Mexican history, they have the greatest national interest of improving commerce and trade relations with the U. S. and we must cease the moment to investigate initiatives that may have not worked in the past to see if we can get them to work today. It is not necessarily true that such joint clearance procedures cannot work if the parties associated, specifically U. S. Customs and Mexican Customs, are willing to work together.

In summary, the importance of commerce and trade to the border area and to the interior of both countries is significant. While there are many avenues that must be investigated to seek improving the current levels of personnel assigned to the international bridges, there will be no substitute for more inspectors as this is a human function and only federal services can provide the personnel needed. We have attached an abbreviated list of some of the economic benefits felt by the border, which are associated with international trade and commerce passing through the bridge ports of entry joining Mexico and Texas.

My name is Gilberto Villarreal and I am the Senior Vice President at Falcon National Bank in Laredo.

Anyone who has been living on the U. S. Mexican Border since the 80's can attest to the dramatic negative effect the peso devaluation has had on our border economy. According to statistics provided by T. E. C., Laredo's work force employed in the Nonmanufacturing Labor Force decreased 16% overall from 1982 to 1983, or a loss of 5,100 jobs in the area where unemployment has usually been higher than the rest of the nation. 1983 saw Laredo's unemployment rate go above 28%.

The Mexican consumer who used to shop in Laredo can no longer afford to do so. This is evident in T. E. C's figures on the labor force employed in retail trade which showed a labor force of 12,000 in January of 1982 as compared to 8,900 for December of 1986.

The current depressed energy market has also contributed to our economic woes.

There are, however, bright spots in our horizon and the most important one being international trade. The increase in duties collected, number of loaded commercial vehicles, railroad cars, and number of outbound in-bond shipments have more than doubled from 1982 to 1986. It is very clear when reading Mr. Zuniga's testimony that the Port of Laredo generates sufficient income to increase the staff of our Custom Service.

The benefits that can be directly derived from an orderly flow of trade are many. The most obvious one being the use of Laredo as a port of exit for many Mexican shippers. I have talked to several sales personnel involved in International Trade and learned that many shippers are concern with the delay in their movement of freight through our port and have threaten to take their business to other ports. We must not allow this. Many people, from the small one or two truck freight hauler, to large National Transportation Companies who hire local people and U. S. Custom Brokers as well as various service companies who rely on international trade are dependent on this flow. The problems are many, but as reported on the front page of The Laredo Times, Sunday February 8, 1987, steps are being taken to find a solution and resolve many of the delays.

U. S. Customs has a very important role in alleviating these problems and in summary, I would like to state the presence of a well staff custom service is vital and necessary. Their workload clearly demonstrates a need for budget increases. Their increase in revenue production demands it. We respectfully request that the monies raised in user fee's in Laredo be added to the budget of the U. S. Customs Service as intended by the U. S. Congress.

SUMMARY OF TESTIMONY
F. F. ZUNIGA

PORT OF LAREDO

	STAFFING			WORK LOAD STATISTICS					REVENUES	
	Import Specialists	C&V Support	Inpectors	Formal Entries Received	Informal Entries	Number of Loaded Comm. Vehicles	Number of Railcars	Number of Outbound In-Bonds	Duties Collected Laredo, Tx.	Estimated Value of Imports
FY '82	6	9	69	35,609	29,633	54,501	31,200	8,852	31,100,000.	699,000,000
FY '83	9	9	87	56,654	29,073	95,727	52,800	9,433	37,900,000.	852,750,000
FY '84	10	10	97	80,736	24,000	99,447	61,200	17,215	56,196,000.	1,264,410,000
FY '85	11	10	97	75,747	34,691	106,697	61,500	20,690	58,640,000.	1,319,400,000
FY '86	12*	10	97	90,670	34,700	121,313	62,800	20,858	72,800,000.	1,638,000,000

* - 2 Import Specialist on new "fraud" team - Do not work regular commercial cargo duties. 10 active

(1) Summary: Staff increases modest. Workload tripled. Traffic increase - Loaded commercial cargo vehicles 4 times greater; railcars doubled.
(2) Revenue producing agency. Increased revenues over twice as much over 5 year span. Need to provide staff & facilities to maintain growth, efficiency.
(3) New "users fee" will generate close to 5 million at Port of Laredo. Congress intended this fee to help defray cost of Custom Service and would be needed to increase staff and services. How can they propose a cut now?
(4) In addition to funds for personnel automation by U.S. Customs to keep up with increased work load requires investment and additional funding. Any budget cuts will greatly harm international traffic.
(5) The staff also works all entries from District due to centralization - additional load from previous years.
(6) Let the record stated above speak for itself.

ROLE OF U. S. CUSTOMS ON THE ECONOMIC DEVELOPMENT OF AREA

by
Mario Yzaguirre

I AM A PRACTICING REGISTERED PHARMACIST AND THE OWNER OF A SMALL BUSINESS (A PHARMACY) IN BROWNSVILLE. AS A PERSON WHO HAS LIVED AND WORKED ALL OF MY LIFE ON THE BORDER I SENSE A NEED FOR THE CONTINUED VIGILANCE OF THE VAST AREAS OF LAND THAT LAY ALONG THE RIO GRANDE RIVER, WHICH FORMS A NATURAL BORDER WITH MEXICO, AND THE MANY MILES OF OPEN AND UNDEVELOPED BEACH ALONG THE GULF OF MEXICO.

AS THE OWNER AND OPERATOR OF A SMALL BUSINESS FOR THE PAST THIRTY YEARS, I HAVE SEEN THE CHANGES THAT HAVE OCCURED IN THIS CITY. WE HAVE GONE FROM A SMALL-TOWN ATMOSPHERE, WITH AN EXCELLENT QUALITY OF LIFE, TO A CROSSROADS IN DRUG TRAFFIC. THE ARRESTS MADE BY CUSTOMS AND OTHER LAW-ENFORCEMENT AGENCIES ATTEST TO THIS BEING A VERY SERIOUS PROBLEM FOR OUR COMMUNITY AND THIS GENERAL AREA.

MY COMMENTS REGARDING THE EFFECT CUSTOMS HAS ON THE SMALL BUSINESSMAN WILL BE LIMITED TO THREE AREAS. THEY ARE DRUG ENFORCEMENT, CENTRALIZATION OF IMPORT SPECIALISTS AND INSPECTION AND CONTROL.

THE FEDERAL GOVERNMENT HAS REPEATEDLY MADE PUBLIC STATEMENTS THAT THE SOUTHMOST BORDER AREA WAS TO BE GIVEN PRIORITY EMPHASIS BY THE U. S. CUSTOMS SERVICE IN DRUG LAW ENFORCEMENT. THE COMMITMENT WAS MADE BECAUSE OF THE EVER INCREASING USE OF THE AREA AS A MAJOR TRANSHIPMENT POINT OF DRUGS ENTERING THE UNITED STATES FROM MEXICO.

WITHIN THE PAST FEW DAYS, THERE HAVE BEEN MAJOR ANNOUNCEMENTS ABOUT THE CUSTOMS SERVICE'S PLANS TO IMPLEMENT NEW AND IMPROVED RADAR COVERAGE ALONG THE LAND BORDER AREAS AND THE GULF COAST AREA. THE ECONOMIC IMPACT OF THESE AGENTS MOVING INTO OUR COMMUNITY CANNOT BE OVERLOOKED BUT EVEN MORE IMPORTANT TO US IS THE FACT THAT POSITIVE EFFORTS ARE BEING UNDERTAKEN BY THE CUSTOMS SERVICE TO COUNTER THE MASSIVE DRUG SMUGGLING PROBLEM IN OUR AREA.

WHILE ON ONE HAND WE ARE BEING TOLD OF THE LARGE COMMITMENT BY THE CUSTOMS SERVICE IN THE AREA OF DRUG LAW ENFORCEMENT, WE ARE NOW BEING TOLD OF PENDING BUDGET REDUCTIONS FOR THE CUSTOMS SERVICE. ADMINISTRATION OFFICIALS HAVE BEEN QUICK TO POINT OUT THAT THE PROPOSED BUDGET CUTS WILL BE IN COMMERCIAL OPERATIONS AND NOT IN CURRENT ENFORCEMENT OPERATIONS BUT THESE STATEMENTS CAN ONLY BE VIEWED WITH SKEPTICISM. WHAT IS COMMERCIAL OPERATIONS? I HAVE BEEN TOLD BY CUSTOMS OFFICIALS THAT COMMERCIAL OPERATIONS CONCERN THE FACILITATION OF CARGO INTO AND OUT OF THE UNITED STATES. IF THIS DEFINITION IS CORRECT, THEN THERE SHOULD NOT BE A REDUCTION IN THESE COMMERCIAL OPERATIONS, BUT AN INCREASE. FOR AN AREA, SUCH AS BROWNSVILLE, WHICH IS IN THE THROES OF ECONOMIC REDEVELOPMENT ANY EFFORT BY THE CUSTOMS SERVICE TO REDUCE ANY PORTION OF THEIR OPERATIONS CAN ONLY BE VIEWED AS HAVING THE POTENTIAL FOR ECONOMIC DISASTER.

DRUG ENFORCEMENT PROGRAMS SHOULD NOT COMPLETELY OVERSHADOW AND MAKE US LOOSE SIGHT OF THE COMMERCIAL OPERATIONS THAT ARE STILL ONGOING IN BROWNSVILLE. A GREAT MANY PEOPLE IN THIS TOWN ARE INVOLVED IN IMPORTING AND EXPORTING. IT IS SOMETHING THAT

THE CITIZENS OF THIS TOWN HAVE BEEN INVOLVED IN SINCE THIS TOWN WAS FOUNDED. THE RETAIL BUSINESS IN THIS TOWN RELIES VERY HEAVILY ON THE MEXICAN SHOPPER. THE WHOLESALERS IN TOWN SUPPLY MEXICAN COMPANIES WITH SPARE PARTS AND RAW MATERIALS. IN RETURN, THERE ARE NUMEROUS BUSINESSES INVOLVED IN BOTH A SMALL AND LARGE SCALE IN IMPORTING MEXICAN GOODS OR AMERICAN GOODS ASSEMBLED ABROAD. IN A TOWN SUCH AS THIS, ONE WILL FIND GOODS AND MERCHANDISE FROM ALL OVER THE WORLD THAT HAVE ARRIVED HERE TO BE SOLD TO MEXICAN CONSUMERS OR TO BE USED IN COMBINATION WITH AMERICAN GOODS THAT ARE BEING ASSEMBLED IN MEXICO.

OF EXTREME IMPORTANCE TO THIS IMPORTING AND EXPORTING PROCESS ARE THE LINE INSPECTORS, THOSE WHOSE JOB IT IS TO EXAMINE GOODS THAT ARE BEING IMPORTED OR EXPORTED AND WHO INSURE THAT ALL DOCUMENTS ARE IN PROPER ORDER PRIOR TO IMPORTATION OR EXPORTATION. COMPLICATING THE REQUIREMENT FOR CUSTOMS INSPECTORS ARE DEMANDS PLACED ON CUSTOMS BY OUR SEAPORT, OUR AIRPORT AND THE TWO TRADE ZONES WE HAVE, AS WELL AS THE NUMEROUS BONDED WAREHOUSES LOCALLY. THE COMMUNITY INFRA-STRUCTURE IS SUPPORTED HEAVILY BY THESE IMPORTING-EXPORTING BUSINESSES AND TO LIMIT THE NUMBER OF CUSTOMS INSPECTORS WILL ONLY SLOW DOWN THE COMMERCIAL OPERATIONS ONGOING IN THE COMMUNITY. IF LOCAL COMMERCE SLOWS DOWN, THE ENTIRE COMMUNITY SUFFERS. WE MUST INSURE THAT THERE ARE SUFFICIENT CUSTOMS INSPECTORS CONSTANTLY AVAILABLE TO INSURE THAT THE NORMAL DAY TO DAY BUSINESS THAT GOES ON HERE IS ACCOMPLISHED SMOOTHLY AND EFFICIENTLY. IF THERE ARE NOT, LOCAL BUSINESS

WILL SUFFER, INCLUDING LOCAL RETAILERS, WHOLESALERS, ASSEMBLY PLANTS LOCATED HERE, NUMEROUS TRUCK LINES, RAILROAD COMPANIES, ALL INCOMING COMMERCIAL AND NONCOMMERCIAL AIR-PLANES, AND ALL BARGE AND BOAT TRAFFIC. INSPECTION AND CONTROL PLAYS A LARGE ROLE IN DRUG ENFORCEMENT, BUT WE MUST INSURE THAT THE ROLE IT PLAYS IN COMMERCIAL OPERATIONS KEEPS PACE WITH THE GROWING AND VIBRANT IMPORT-EXPORT COMMUNITY THAT EXISTS HERE.

OVER THE LAST TWO YEARS CUSTOMS HAS BEEN INVOLVED IN WHAT HAS BEEN CALLED CENTRALIZATION OF IMPORT SPECIALISTS. IMPORT SPECIALISTS LOCALLY EITHER WERE REASSIGNED OR WHEN THE OLDER IMPORT SPECIALISTS RETIRED THEIR SLOTS WERE NOT FILLED AND SUCH SLOTS WERE ASSIGNED ELSEWHERE. NOW, BROWNSVILLE HAS NO IMPORT SPECIALISTS ON DUTY, WHILE, HIDALGO AND LAREDO HAVE SOME. IMPORT SPECIALISTS ARE YOU MIGHT SAY THE "BRAINS" OF CUSTOMS. THIS IS NOT TO TAKE AWAY FROM YOUR LINE INSPECTOR, WHO IS A GENERALIST AND IS NOT EXPECTED TO DEAL WITH THE FINER POINTS OF CLASSIFICATION OF GOODS OR APPRAISAL OF VALUE OF GOODS AS AN IMPORT SPECIALIST.

WHAT WE HAVE HERE IN BROWNSVILLE NOW IS THUS A SITUATION WHERE LOCAL BUSINESSMEN WHO ARE INVOLVED IN IMPORTING MUST GO TO LAREDO FOR INFORMATION. AN 800 NUMBER TO CALL HAS BEEN MADE AVAILABLE TO LOCAL BUSINESSMEN, BUT IT IS RATHER DIFFICULT TO TALK ABOUT A TYPE OF MERCHANDISE OVER THE PHONE. WITH THE IMPORTING BUSINESS HERE GROWING AND WITH THE INCREASING NUMBER OF ASSEMBLY PLANTS LOCATING HERE, IT WILL BE VERY DIFFICULT TO CONTINUE THIS GROWTH IN THE FUTURE WITHOUT LOCATION OF IMPORT

SPECIALISTS ONCE AGAIN IN BROWNSVILLE. KEEP IN MIND THAT WE HAVE TWO BRIDGES, AN AIRPORT, A SEAPORT, AS WELL AS TWO TRADE ZONES AND WE DON'T HAVE AN IMPORT SPECIALISTS POOL LOCALLY TO DEAL WITH LOCAL IMPORTERS. ONE MIGHT SAY THAT THE POOL WENT WHERE THE BUSINESS IS; BUT, WE WOULD NOT HAVE TWO BUSY BRIDGES, A BUSY AIRPORT IN TERMS OF COMMERCIAL SHIPMENTS AND A SEAPORT, AS WELL AS THE TWO TRADE ZONES IF IT WERE NOT FOR THE BUSINESS WE HAVE. OUR WORRY IS THAT WITHOUT IMPORT SPECIALISTS THAT THE BUSINESS HERE WILL NOT STAY HERE FOR LACK OF IMPORT SPECIALISTS TO INSURE PROPER CLASSIFICATION AND APPRAISAL. OUR WORRY IS THAT BUSINESS WILL GO WHERE THE SPECIALIST ARE AND OUR TOWN WILL BE HURT EVEN MORE. IMPORT SPECIALISTS REVIEW ALL IMPORT DOCUMENTS AND IF A BUSINESSMAN HAS COME DOUBT ABOUT THE CORRECTNESS OF A CLASSIFICATION, THEN HE HAS DOUBTS ABOUT THE AMOUNT OF PROFITS INVOLVED IN HIS OPERATIONS. WHEN PROFITS ARE IN DOUBT, PEOPLE OFTEN OPT FOR THE CERTAIN. THIS THEN IS A SITUATION WHICH MUST BE CORRECTED. IF OUR TOWN LOSES THIS IMPORTING COMMUNITY IT IS UNDERSTANDABLE THAT OTHER BUSINESS WILL MOST CERTAINLY SUFFER.

REGARDING DRUG ENFORCEMENT, I CAN TELL YOU AS A CITIZEN OF BROWNSVILLE THAT THE ILLEGAL SMUGGLING THAT IS TAKING PLACE LOCALLY IS ONE ACTIVITY WE DO NOT WANT HERE. BECAUSE OF BUDGET CUTS AND A GENERAL LOWERING OF REVENUES, OUR CITY POLICE DEPARTMENT AND OUR COUNTY SHERIFFS DEPARTMENT ARE BOTH UNDER-MANNED. WE JUST DO NOT HAVE THE TAX BASE TO DEFEND OURSELVES. WE HAVE TO MAKE DO WITH TRYING TO COORDINATE ALL OF THESE DEPARTMENTS IN CONJUNCTION WITH EXISTING LEVELS AT CUSTOMS. WITHOUT FEDERAL INTERVENTION, I CAN TELL YOU THAT WE WILL LOSE

THE BATTLE. MY PERSONAL VIEW IS THAT CUSTOMS IS A VERY IMPORTANT AND NECESSARY ELEMENT IN MAINTAINING THE QUALITY OF LIFE OF OUR CITY THAT IS NEEDED TO ATTRACT INDUSTRY AND MUCH NEEDED JOBS.

IF THE DRUG SMUGGLER GAINS THE UPPERHAND HERE, BUSINESSES SUCH AS MINE AND OTHERS LIKE MINE WILL SUFFER BECAUSE THOSE CITIZENS WHO ARE OUR CUSTOMERS WILL NOT WANT TO REMAIN HERE. THEY WILL NOT WANT TO LIVE HERE AND WILL EVENTUALLY GO ELSEWHERE. I ASK THIS COMMITTEE TO MAKE A COMMITTMENT TO THE CITIZENS OF BROWNSVILLE THAT THIS NATION WILL NOT ABANDON THEM AND THAT THIS NATION WILL DO ITS UTMOST TO DEFEND THE RIGHTS AND PROPERTY OF THE LOCAL POPULATION BY PROVIDING US WITH THE PERSONNEL NEEDED TO PROPERLY DEFEND THE BORDER REGION AGAINST DRUG SMUGGLERS.

BROWNSVILLE IS UNIQUE IN THAT WE ARE A PORT OF ENTRY BY LAND, BY AIR AND BY SEA. AGENTS TRAINED IN THE DIVERSIFIED ASPECTS OF CUSTOMS DUTIES ARE REQUIRED IN THIS AREA. WE REQUIRE AGENTS FAMILIAR WITH THE LIFESTYLE OF OUR CITIZENS, THE INTERMINGLIG OF TWO CULTURES, AND THE TWIN-CITY ASPECT OF BROWNSVILLE AND MATAMOROS. THE BROWNSVILLE MATAMOROS AREA IS LIKE A BI-NATIONAL CITY OF ½ MILLION POPULATION. IN THIS ATMOSPHERE WE HAVE STUDENTS CROSSING DAILY TO ATTEND CLASSES; WE HAVE CITIZENS OF EACH CITY CROSSING BACK AND FORTH TO CONDUCT BUSINESS, OR SHOP ON A DAILY BASIS FOR STAPLES AND NECESSITIES. THE LONG LINES AT THE ENTRY POINTS ARE A SOURCE OF FRUSTRATION TO ALL WHO EXPERIENCE IT. WE NEED MORE PRIMARY AND SECONDARY AGENTS TO PREVENT COMMERCIAL TRAFFIC FROM BEING IMPEDED. A SYSTEM NEEDS TO BE WORKED ON TO FACILITATE THE

ENTRY WHILE STILL ABIDING BY THE EXISTING LAWS.

IN CONCLUSION, OUR REQUIREMENTS ARE NOT MANY. WE ONLY ASK THAT WE BE ALLOWED TO CARRY ON THE PRESENT BUSINESSES WE HAVE BY BEING PROVIDED ENOUGH LINE INSPECTORS TO PROPERLY AND SWIFTLY CLEAR GOODS, THAT OUR GROWTH BE INSURED BY PROVIDING US WITH IMPORT SPECIALISTS AGAIN TO NUTURE THAT GROWTH, AND THAT THE FEDERAL GOVERNMENT LIVE UP TO ITS CONSTITUTIONAL MANDATE TO DEFEND ALL THE CITIZENS OF ALL THE LAND AND PROVIDE US WITH NECESSARY DRUG ENFORCEMENT MEASURES SO THAT WE CAN THROW OUT THE ILLEGAL DRUG SMUGGLING ELEMENT WHICH NOW ENDANGERS US. PLEASE UNDERSTAND THAT THIS COMMUNITY HAS SUFFERED GREATLY SINCE THE PESO DEVALUATION IN 1982; BUT ALSO TAKE SOLACE IN THE FACT THAT WHILE WE SUFFERED WE, ALSO, ADJUSTED AND CHANGED SO THAT WE COULD SURVIVE. OURS IS A MORE DIVERSIFIED ECONOMY NOW, AND AN IMPORTANT PART OF THAT DIVERSITY IS THE IMPORT-EXPORT COMMUNITY THAT EXISTS HERE. I SAY THAT WE MUST NURTURE THAT COMMUNITY AND ALLOW IT TO GROW. AND, WE NEED ENOUGH SUPPORT FROM CUSTOMS TO INSURE THAT THIS COMMUNITY CAN GROW AND EVENTUALLY RESTORE THIS COMMUNITY TO GOOD GRACES IN EVENTUALLY SUPPORTING ITSELF AND ITS PEOPLE.

THANK YOU.

The Senate of The State of Texas

Judith Zaffirini

State Senator, District 21

TESTIMONY PRESENTED BY DR. JUDITH ZAFFIRINI

TEXAS STATE SENATOR (DISTRICT 21)

SENATE FINANCE COMMITTEE HEARING ON THE ROLE OF U.S. CUSTOMS SERVICE ON THE ECONOMIC DEVELOPMENT OF THE BORDER REGION WITH SPECIFIC REFERENCE TO LAREDO

The United States dependence on foreign trade has dramatically increased over the past two decades. In 1966, total U.S. dependence on foreign trade was only 7.66 percent. [Dependence on foreign trade is defined as the ratio of total trade (imports plus exports) to gross national product (GNP)]. Maybe more significantly, in 1966 the United States had a surplus, albeit small, in its international trade. Twenty years later, in 1986, the U.S. economy's dependence on foreign trade had increased to 14.35 percent and the country's balance of trade had a deficit of approximately $170 billion.

Whereas many diverse hypotheses have been developed to explain the causes of this dramatic change, none has been empirically verified or has gained a concensus among economists. In fact, even though economists generally agree as to the benefits of the first change, and most agree on the problems

associated with the second change, little agreement exists as to the causes of either, much less to cure the latter.

Two important conclusions can be drawn from the experience of the United States international trade picture over the past two decades. One, the research done in this area is not only insufficient in scope and availability, but the limited research undertaken is at best fragmented and lacks a central cohesiveness. The U.S. Department of Commerce provides a large supply of raw data on the U.S. trade position, but this country has no center to provide analytical and specific information needed by exporters, importers, and the general public.

A second conclusion drawn from the above is that American exporters and potential exporters lack the fundamental expertise in trade and trade-related topics that their foreign competitors have. Despite an abundantly clear need for the development of trade expertise, educational opportunities in this field are extremely limited. Training of trade-oriented entrepreneurs, export managers, and technicians with specialization in international trade is a rare commodity. In fact, the only graduate business degree program available in international trade in the country is the MBA degree in international trade at Laredo State University. However, that program is very small because of financial restrictions and is limited to a handful of graduates per year.

These two problems, namely, shortage of information and lack of training facilities, have placed American businesses and potential exporters in a very disadvantaged position in the international markets. American firms have to compete with multinationals from Japan, Europe, and in recent years from some developing countries. In almost all cases, foreign multinationals have access to more information and are better trained in trade issues than their American

counterparts, and this fact, to a great extent, explains the adverse position of the United States balance of trade in recent years.

STATEMENT OF OBJECTIVE

To mitigate both of the problems given above, I would like to propose the establishment of a School of International Trade in Laredo, to be jointly funded by the Federal Government and the State of Texas. The school's primary functions would be to simultaneously provide training in international trade and also serve as a research center for international trade studies. (For details of proposed activities, please see the attached Appendix.) Specifically, this school of international trade would provide the following services:

1. Offer academic degrees in international trade
2. Serve as a data-base center to compile, analyze, and disseminate information on U.S. international trade
3. Provide regular and periodic publications on trade issues
4. Offer foreign language training for both American government officials and businessmen interested in enhancing their language abilities. The training would also benefit bilingual students in the border area who could enhance their knowledge of Spanish by learning professional and business terms. The school would also offer English as a Second Language (ESL) to foreign students and scholars as well as U.S. government-sponsored trainees.

In addition to the above, because of its location on the border with Mexico, this School of International Trade would provide the following services to the border community:

5. It would establish a data-base on the border economy to collect, analyze, and distribute economic, trade, financial, and demographic information on the border.
6. It would create production and price indices for the border region.
7. It would provide regular and periodic reports and position papers on the border economy.
8. It will serve as an information base for border businesses.

Laredo is the largest inland port in the United States and a natural choice to serve as a base for the School of International Trade. Additionally, Laredo State University is already heavily engaged in teaching and research on international trade. Specifically:

1. Laredo State University offers the only graduate program in international trade in the country. This MBA in international trade, first offered in 1977, prepares students to become specialists in trade. The program is small because of financial restrictions, but can serve as the nucleus of a much larger program.
2. In 1974 Laredo State University established an Institute for International Trade to engage in research on the economy of the border. Despite its limited budget, the Institute is recognized as an important source of information on the border. Its weekly survey, Border Business Indicators, is the only available analysis of the economic situation of the Texas border region.
3. Throughout the years, Laredo State University has sponsored many conferences and symposia. These conferences have ranged in scope from specific ones dealing with individual customs regulations to the forthcoming symposium on "North American Economies in the 1990s" to include more than 200 participants and more than 100 papers and

presentations by scholars from all over the world. Some conferences have been co-sponsored with the University of Tamaulipas in Nuevo Laredo, Laredo's sister city in Mexico.

4. In 1986 Laredo State University engaged in another pioneering effort through the publication of The International Trade Journal. This quarterly journal is the only academic publication in English dealing exclusively with trade issues. Its Editorial Advisory Board consists of a selected number of leading theoreticians and practitioners of international trade. In its short life-span, The International Trade Journal has been successful in publishing outstanding articles.
5. Laredo State University has periodically engaged in specialized research of interest to the border community. For example, one recent such activity was a project to develop a socio-economic profile of undocumented immigrants entering into the U.S.

BENEFITS OF THE PROPOSED SCHOOL OF INTERNATIONAL TRADE

The benefits of this proposal to the general international trade community in the United States are numerous. First, this School would serve as a training center for the nation's present and future business and government leaders. Its graduates would be able to compete effectively with their foreign counterparts. They would play a significant role in reversing the recent trend in the U.S. trade picture. In so doing, the School of International Trade would fill the vacuum which currently exists in specialized trade-related education. It would also be instrumental in the development of entrepreneurial skills for the practitioners of international trade.

A second benefit of this proposal is that it would serve as a single data-based center for information related to trade. Presently, the limited information available is highly fragmented and difficult to obtain. This is particularly true for small and medium-sized companies which do not have access to the resources of large corporations. This activity by itself would enable the American companies to compete more effectively in the international markets. Other beneficiaries of this data-base could be potential foreign investors in the United States as well as American investors abroad.

Finally, the research arm of the School of International Trade would identify potential export markets for U.S. products and advise exporters of such opportunities. The School could also assist in the evaluation of impending regulatory changes in the U.S. and analyze the impact and implications of such changes on the general trade picture as well as individual industries or companies effected.

In addition to the above general benefits to the U.S. economy, the proposed School of International Trade would have some specific advantages for

Laredo and the border region. Specifically, it would serve as an economic information center on the border. As indicated earlier, the border region suffers from a general information gap, and this proposal will eliminate that very serious problem. For Laredo, establishment of the School of International Trade would mean additional economic aid to a very depressed economy. Assuming a student enrollment of 550, including 50 from Laredo, the School would have the following immediate impact on the city's depressed economy:

Each student who attends this program would spend about $10,000 annually on personal expenses. Given a multiplier of four, this will translate to a contribution of $20,000,000 to Laredo's economy.

A student body of 550 will require an additional twenty-five faculty members plus a support staff of 20-30 persons. The research arm of the school will need to employ some 20 professional researchers and a support staff of equal size. Whereas most of the faculty and research staff may be brought in from other cities, Laredo's employment picture would improve by an additional 50 staff positions. At any rate, the payroll for this group would be over $2.5 million, thus contributing an additional $10 million to the local economy.

In summary, then the proposed School of International Trade in Laredo would benefit the general trade community in the country by serving its educational and informational needs, the border region by meeting its informational and economic needs, and Laredo by easing its economic pains and assisting in its economic development. At least in the latter two cases, their survival may depend on outside assistance of this nature.

APPENDIX

The School of International Trade, as proposed, would perform four major functions: teaching, research and publication, language training, and dissemination of specialized information through management training programs and conferences. The School would meet the need that exists for preparing present and future business and government leaders with the expertise to strengthen the nation's trade position.

Laredo, the nation's major inland port, is the ideal site for the School. The nucleus of the School already exists. In the academic area, Laredo State University offers the nation's only Master of Business Administration Degree with a major in International Trade (MBA-IT). Research, publication, and conferences are major activities of the Institute for International Trade (IIT), the research arm of the University. The Institute publishes the only refereed, scholarly journal devoted exclusively to trade-related issues that is available in the English language. The Institute also collects data on U.S.-Mexico trade and other service sectors for the Texas segment of the Border and publishes Border Business Indicators, a weekly survey of business activities on the border. Conferences on trade issues are sponsored which are attended by business and government representatives from both the U.S. and Mexico.

The School of International Trade, as envisioned, would provide a wide range of services to decision makers that present funding does not permit. A more detailed description of the activities is discussed under the functions the School would perform.

I. Teaching

The expanded Master of Business Administration Degree in International Trade (MBA-IT) would provide participants with an understanding of the economic theories of trade, the basic business concepts of international finance and international marketing, as well as the practical expertise required in exporting and importing products. In addition to the traditional M.B.A. courses, participants would study international logistics, government policies that affect trade, international commercial law, customs brokerage, marine insurance, international enculturation, and other specialized courses. Graduates would be prepared to serve in international departments of corporations, international banking, government trade promotion departments, transportation firms, and small business firms that anticipate entering the export market. Entrepreneurship would also be stressed to prepare graduates to engage in trade activities independently.

The city of Laredo's international atmosphere facilitates the transition from theory to practice. Field trips and limited internships in Laredo would provide the opportunity of viewing major phases of the logistics process, customs activities in two countries, export-import financing procedures at banks, in-bond shipments and warehouses, and twin plant (maquiladora) operations. Field trips to other nearby ports would facilitate understanding of ocean and air cargo requirements. Differences in culture and their impact on business operations are experienced daily in the city in which 90 percent of the population is Hispanic. Easy access to Mexico would foster better understanding of cultural diversity.

A participant can enter the program with a Bachelor's Degree in any discipline. The person whose undergraduate degree was in business administration would be able to complete all requirements in one year. Those with

undergraduate degrees in other disciplines would require 18-24 months to complete their requirements.

The specialization in International Trade would also be offered as a major in the Bachelor of Business Administration Degree program. Those graduates could fill positions in trade-related activities at lower echelons of business and government organizations.

A long-term diversification of the teaching function could be an inter-disciplinary program in Inter-American trade and development. The program could be offered at the undergraduate and/or graduate level. A strong research base is needed for all teaching programs.

II. Research and Information Dissemination

The present research function would be expanded to include the development and regular updating of a database. Data analysis and publications would be elaborated. Specialized services could be greatly enhanced; these include responding to requests of border business firms, government agencies, industrial development foundations, prospective investors in border business, and the media.

The need is clear. The U.S. trade deficit provides evidence that intensive research studies are necessary to provide policy makers with an understanding of the problem and alternatives aimed at improving the U.S. position. The paucity of data on the border economy has been a major limiting factor in strategic planning aimed at economic development of the depressed segments of the border area.

The research activities of the proposed School of International Trade would be divided into four parts: database, analysis, publication, and specialized services.

A. Database

The need for quantitative information could be met by development and regular updating of a computerized database for trade and development related activities and indicators that affect the economic performance of the entire border area. For selected information that might already be available through other databases, access to other systems would be arranged.

Collection activities for the database would concentrate on U.S. international trade data as well as on the economic data on the border. Specifically, the compiled data would include:

* U.S. aggregate trade figures
* Geographical breakdown of U.S. trade
* Commodity breakdown of U.S. trade
* U.S.-Mexico trade composition
* Industrial, agricultural, and mining production
* Selected financial and banking information
* Transportation facilities and costs
* Warehousing facilities and costs
* Demographic information
* Per capita and household income
* Inventory of available labor skills and management expertise
* Other data of interest to industrial development specialists

B. Analysis

This activity of the School of International Trade would use the specialized databases to develop price and production indices, trend analyses, and aggregate trade and trade composition analyses in addition to the preparation of regular analytical reports and position papers on trade and

Border issues. Models would be developed to forecast changes in the indices or in other variables that affect U.S. trade or that have an impact on the Border economy.

C. Publication

A main function of an expanded School of International Trade would be the transmittal of the findings of the analysts' work. The goal of the publication function must be the regular reporting of the general and special work of the research and analytical sections.

The Institute for International Trade of Laredo State University is already publishing The International Trade Journal, a quarterly refereed journal for scholars and practitioners. The Journal strives for the enhancement of research in international trade and its editorial objective is to provide a forum for scholarly exchange of research findings in, and significant conceptual or theoretical contributions to, the field of international trade.

The Journal encourages researchers and practitioners to submit their findings for possible inclusion in the publication. The scope of the Journal's activities includes international trade relations; commercial policy; trade and development; international trade organizations and agreements; and national studies and regional studies as they relate to trade issues. The International Trade Journal fills a special need in the arena of scholarly publications. The response to the first two issues indicated that this Journal has been long needed to provide the specialists in international trade a proper forum for their research activities.

Another current publication of the Institute for International Trade is the weekly survey, Border Business Indicators (BBI). This survey reports

weekly on the developing economies of the border region. The goal of BBI is to produce business and trade indicators that will aid border related business interests, government agencies, and other organizations associated with commercial activities along the U.S.-Mexican border. Currently six cities along the Texas segment of the border, from El Paso to Brownsville, are included in the study. Under the proposed School of International Trade other border cities would be added. The weekly publication includes a comparative analysis of each city's economic sectors and relates the trends in retail sales and hotel/motel occupancy. Included in this publication on a monthly basis are such data as airport activity, building permits, city power connections, unemployment, tourism, and export shipments. The BBI report is useful as an aid in business analysis and would be expanded to include more data and play a significant role in developing a better understanding of the economics of the border region.

As the School expands in size and its functions expand in scope, it can become a major publication forum for analytical treatises on international trade issues. United States and foreign scholars would use this outlet for monographs, position papers, and other works describing, analyzing, forecasting and suggesting alternatives to alleviate the myriad of problems associated with international trade.

D. Specialized Services

Because of Laredo's strategic location, an expanded School of International Trade could be of immense benefit to an area of dynamic economic activity, such as the U.S.-Mexico border region. The School, as a research arm and storehouse of specialized data, could be especially responsive to requests from business establishments, development foundations, prospective

investors, export market queries, local and national media, and state and federal agencies.

Laredo State University's Institute for International Trade has already developed a reputation as a resource to help solve and/or answer requests for special trade and border related economic information. The requests are many and varied and come from all parts of the U.S. and many foreign areas. With expanded resources and research capabilities, the response to many specialized services could be met.

III. Language Training

A logical part of the concept of a unique, specialized, and professional School of International Trade is language training. The U.S. has historically depended upon our trading partners to speak English. A new global involvement requires that we learn to better communicate with out trading partners by learning their languages. The training concept is not new nor are the methods of teaching languages. Creation of a major language training facility associated with the School would enhance the quality of the graduates and their communication skills in entering international markets. Students who are currently bilingual in Spanish and English could enhance their knowledge of Spanish by learning professional and business terms.

Such a facility would be especially effective as a training center for foreign service officers and other government sponsored trainees.

IV. Specialized Knowledge Sharing and Dissemination

Programs would be developed and tailored to special needs such as programs to provide specialized, trade related executive training, symposia that provide forums for special issues, training courses on customs regulations and

operations, and conferences and seminars which explain or investigate special trade issues. An enhanced School of International Trade could be responsive to the needs of business or government through these dissemination mechanisms. As issues develop and the need for analysis or explanation arises, the School can provide the essential expertise in a timely and professional manner to respond to the need.

SUMMARY OF TESTIMONY
F. F. ZUNIGA

My name is Fernando F. Zuniga and I am a Licensed U. S. Customhouse Broker at the port of Laredo, Texas (which is on the U.S.-Mexico border). At the present time, I serve as president of the Laredo Licensed Customhouse Brokers Association of this community. Our primary function is to clear through U.S.Customs all commercial cargo arriving at this port from Mexico either for domestic consumption or re-forwarding to another country or U.S. port on an "In Bond" basis. My personal experience consists of over 18 years in the importing business.

The most dramatic change in our trade relations with Mexico started in August, 1982 with the first major devaluation. I have attached a status sheet (front sheet) which reflects the workload statistics; staffing, and revenues collected at the Port of Laredo from the date of the devaluation to end of fiscal 1986 (Aug. 31, 1986). The chart clearly shows the dramatic increase in commercial cargo entering through this Port from Mexico which has made Mexico the 3rd strongest trading partner of the United States. It further clearly shows the very modest increases in staffing to meet these cargo increases. Note that formal entries are now three times 84 levels, number of loaded commercial vehicles are now four times greater (121,313 compared to 54,501), rail traffic has doubled, In-Bonds tripled, duties collected are more than doubled. In contrast, we have only received a 40% increase in inspectors, 11% in C&V support and a 66% increase in import specialist which are the three main elements needed to import and control imports into the United States. This is difficult to understand or accept. To support a reduction of budget or personnel under these conditions would be suicidal in our opinion.

To add to the dilema, the Customs service is further required to enforce over 200 laws and regulations for more than twenty other federal agencies such as EPA, DOT, FDA, USDA, to mention only a few. We are amazed at the service being rendered with such limited resources.

We would like for this committee to further take note of the revenues collected or generated by this agency and the again dramatic increase since 1982. Collected duties (and these are cash payments without billing expenses) have risen from 31,100,000.00 in 1982 to 72,800,000.00 in 1986. This being in spite of GSP program which allows a great number of Mexican products to enter the United States on a duty free basis and in spite of the tariff reductions that came from agreed reductions over the past 5 to 10 years. (staged reduction duty rates).

Last year the Laredo Customs Brokers Association strongly backed the users fee provisions imposing a 0.22% of 1% assessment on imports and $5.00 vehicle fee since we felt this would enable our port to provide better facilities and staffing. This income is now a reality, and based on total import value of $ 1,638,000,000 of last year, the users fee which went into effect in December 1986 (which will be reflected in fiscal 1987), will produce 3 1/2 million dollars in revenue at Laredo, Texas alone, plus another million dollars in vehicle user fee at $ 5.00 paid by all trucks and railcars entering the United States with commercial cargo.

Our belief was that Congress passed this fee to help us have better staffs and facilities to meet our increased needs. We are shocked to learn that the administration is proposing a cut instead of the proposed or mentioned "better service". I would also like to point out some other pertinent factors. The Customs service, strongly backed by the Brokers Association, are now embarked in a big change in method of operation. Primarily induced by the lack of personnel to meet the evergrowing traffic, the changes or new procedures are basically new electronic automation to generate faster and better service with the reduced staffing they have. Programs in this category are programs such as ABI (Automated Broker Interface), line releases which use bar codes, computerization, etc. to implement rapid release of low risk, repetitive, reputable cargo. These programs require skilled personnel and need to be staffed and budgeted to handle increased work loads at a reduced unit cost. They cannot be implemented with proposed budget cuts. Should this happen, the results would be disasterous and International traffic would suffer. Please take note that I am not addressing an additional factor that the summary charts do not reflect. Under the "Centralization" which the Customs service has undergone recently in order to remain "in budget" the entry staff, that is, the Import Specialists and C & V Support staff at Laredo, Texas, are now handling all entry work for the entire Laredo district. (from Brownsville to Del Rio on the border and San Antonio to the North). Considering this the 11% increase in C&V support and 40% increase in specialists shown in chart would be either flat or negative.

In conclusion, I would request you review the summary statement and work chart (attached as front sheet) and let "the record speak for itself". Gentlemen, the Customs Service in additon to its valuable service in drug control, is a revenue producing agency which has tripled its services in the field of commercial cargo entering the U.S. with small or no increase in staff. They must be supported and helped. Their budget demands increases and not cuts. We want to go on record as strongly opposing any cuts in their budget and request the five million dollars raised in users fee at this port be channeled directly to the U. S. Customs Service as intended by the U.S. Congress when Users fee law was passed.

F. F. Zuniga